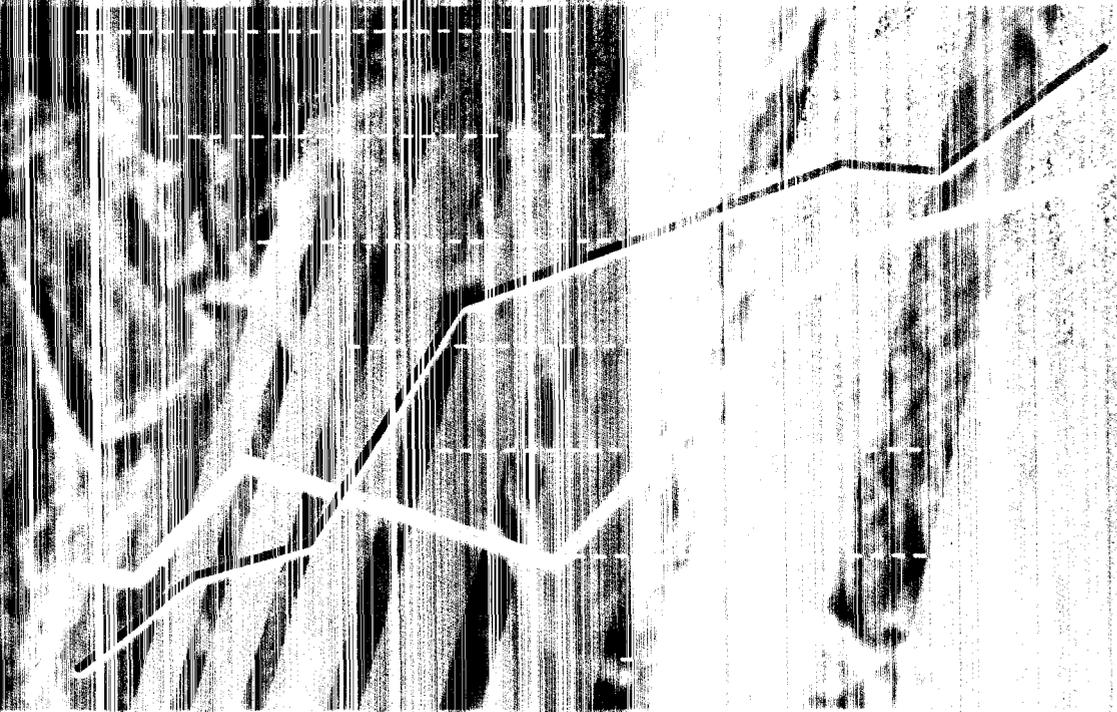


Public Disclosure Authorized

MIGA

16862
1997

THE STANDARD-SETTER



AKIRA IIDA

Public Disclosure Authorized

■ FOREWORD

Akira Iida has been at the helm of MIGA for five years, and in that time he and his excellent team have developed the company to become a leader and standard setter in the field of investment promotion and political risk insurance.

During this period MIGA has emerged into an organization that is committed to client service and to the fulfillment of the development objectives of the World Bank Group. This book sets forth Mr. Iida's views in his own particular way, with each chapter explaining the business philosophy and the strategic plans which he and his colleagues have brought to the service of the worldwide business community.

Readers will gain a fascinating insight into the thought, planning, innovation and periodic and bold initiatives which have characterized Akira Iida's management style. He and his team have demonstrated an unshakable commitment to improve conditions in the world's poorer nations through investment marketing and political risk mitigation. This book reflects a record of commitment and achievement.



James D. Wolfensohn

■ ACKNOWLEDGMENTS

It was possible to publish this book through the contributions of Ms. May Eidi who worked on the design of the book, helped with editing and discussed the publication plan with the World Bank Publisher. The following members of MIGA supported me in developing the institution into an excellent company: Mr. Leigh Hollywood and his Guarantees team; Mr. Luis Doderio and his legal team; Mr. Martin Hartigan and Ms. Karin Millett and the Investment Marketing Services team; Messrs John Griffith and Dan Conway and the administrative, finance and personnel team. My thanks also go to Messrs. Manfred Beutgen and Lutz Halfmann who were my German counterparts when I worked for the Japanese ED's office in the World Bank 27 years ago. Both of them gladly accepted my offer to join MIGA and were good advisors to me. The achievement of the above team is shown in the annex.

Finally, I would like to express my heartfelt thanks to Mr. Ibrahim F. I. Shihata, Senior Vice President and General Counsel of the World Bank for his precious counsel not only for the publication of this book but also for solutions of various problems I encountered in MIGA.

■ TABLE OF CONTENTS.....

MIGA — The Standard-Setter of Investment Promotion Business	4
Corporate Values of MIGA	12
Information Sharing between the Public and Private Sectors	20
MIGA and UNIDO	28
Capital Increase Shift	34
Business Relationship between the IBRD, MIGA and Export Credit Agencies	42
World Bank Guarantee and MIGA Guarantee	46
Launching of Prototype — <i>IPAnet</i>	52
Denver Speech on African Mining Investment Conference	56
Marketing a Country	60
Policy Matters of MIGA	66
Launching the Concept of the <i>IPAnet</i>	70
Africa IPA Round Table Address	74
The Role of MIGA in the Western Provinces of China	78
The Special Role of MIGA in the World Bank Group	86
Prospects for Japanese and U.S. Policies in the Asia and Pacific Region in the 1990s	92
ANNEXES — MIGA Business Profile	99

SPEECH ON
“MIGA — THE STANDARD-SETTER OF
INVESTMENT PROMOTION
BUSINESS”

at the Finans Dunyasi Dergisi

ISTANBUL, TURKEY
February 19, 1997

This speech was the keynote address at the business dinner of Finans Dunyasi, Istanbul, Turkey. Finans Dunyasi is a group of prominent leaders of the Turkish business community. About 100 people were in the audience, and I was the guest speaker. I tried to introduce MIGA to the group and took questions about the practical aspects of MIGA's business in relation to the Turkish economy.

In the speech, I tried to define how MIGA conducted its business in the past five years, setting the standard in various aspects of investment promotion.



MIGA — THE STANDARD-SETTER OF INVESTMENT PROMOTION BUSINESS

*Speech by Mr. Akira Iida
Executive Vice President*

MULTILATERAL INVESTMENT GUARANTEE AGENCY

*at the Finans Dunyasi Dergisi,
Istanbul, Turkey*

February 19, 1997

I. INTRODUCTION

Ladies and gentlemen: It is a great pleasure for me to be able to address the intellectual leaders of the Turkish business community this evening. As you know, I have arranged that MIGA's Annual Report and Business Profile Brochure be circulated to you before this event. Therefore, I assume that you already know, vaguely, what MIGA is all about and how its business has evolved in its short history.

However, let me explain to you two facts to start with:

Two facts

(1) MIGA: The Catalyzer of Private FDI

First, MIGA started its guarantee business from scratch seven years ago. This business has now reached a level of significance in FY96. The amount of risk coverage underwritten in the last financial year (July '95–June '96) was about \$900 million and this has facilitated investment in

the form of FDI of about \$6.6 billion. Therefore, you may understand, why I say that MIGA's role as a catalyzer of private FDI has already reached a level of significance.

(2) MIGA: The Diffuser of Private FDI Flow

The next figure that I would like to quote is about the concentration of FDI flows toward developing countries. The net FDI flow toward developing countries was \$90 billion in CY95, and the World Debt Tables indicate that 80% of those FDI flows concentrate in the top 12 countries. They are: China, Malaysia, Indonesia, Hungary, Mexico, Argentina, Brazil, Thailand, Chile, Poland, Greece and Nigeria.

Let me compare this figure with MIGA's portfolio. MIGA's outstanding guarantee exposure is about \$2.3 billion. This guarantee portfolio covers 40 developing countries. To compare with the data from the World Debt Tables, the share of those top 12 countries in MIGA's guarantee exposure is only 30%. This means that 70% of MIGA's exposure is going to other countries. Among those other countries

there are 13 IDA countries which receive about 25% of MIGA's guarantees. This comparison shows that MIGA is clearly playing *a role to diffuse private FDI flows to developing countries*. Therefore, I will claim that MIGA be regarded as a "diffuser of private FDI flows."

II. MIGA: THE STANDARD-SETTER

But this is not the subject on which I would like to speak this evening.

I would like MIGA to be regarded also as the "standard-setter" of investment promotion business. To illustrate this I should like to take up four subjects in the following order:

- (a) product quality
- (b) impact on the market
- (c) transparency and governance issues
- (d) standard setting in technical assistance activities

A. *Setting the Standard of Guarantee Product Quality*

First, product quality. The quality of MIGA's insurance product can be summarized in the following context:

- (1) MIGA insurance has both simplicity and flexibility of **contract design**.
- (2) MIGA, being an international agency, possesses stronger **problem-solving capacity** as compared to national or private insurance companies.

In addition,

- (3) There is no doubt about MIGA's capacity to make claims payments by virtue of the fact that this is an institution within the World Bank Group and member-governments provide an **ample solvency cushion**.

For all these reasons, the customer survey (which MIGA regularly conducts) demonstrates that **customers generally maintain a high regard for the agency's services**. I have to confess that MIGA's premium rate is rather on the high side as compared to that of national agencies. Nevertheless, MIGA's clients are excellent companies. They claim that they are cutting costs to be competitive in the market and they are willing to purchase risk coverage, if necessary. This evidence shows that MIGA is clearly setting the standard about the quality of the product in the political risk insurance market.

B. *MIGA's Impact on the Political Risk Insurance Market*

Now, let me talk about MIGA's impact on the Political Risk Insurance Market.

MIGA is also setting standards in the insurance market. When MIGA was created in 1988, the private insurers were almost non-existent in the long-term investment insurance market; or, if they were, the period of risk coverage was limited to only three years at the most. Therefore, it was, so to speak, a monopoly market for the national agencies to protect the overseas investments of their national investors.

However, MIGA's **claims-free record, that has continued during the past seven years, has signaled that political risk insurance activities could be a new business possibility for private insurers as well**. And, in the recent couple of years, we have observed some private risk insurers coming into the political risk insurance business, not only in trade, but also in investment. Some insurers have extended coverage from the traditional 3 years to 7 years and more. In addition, some of the reinsurers in Bermuda have come to offer reinsurance to such political risk insurers. If MIGA's success in the past has triggered this kind

TABLE 1. *Guarantee Activities, FY1990 through FY1996*

	FY1990	FY1991	FY1992	FY1993	FY1994	FY1995	FY1996	TOTAL
Number of Guarantees	4	11	21	27	38	54	68	223
Maximum Aggregate Liability (\$ million)	132	59	313	374	372	672	862	2,784
Approximate Amount of FDI Facilitated (\$ billion)	1.0	0.9	1.0	1.9	1.3	2.5	6.6	15.2
Estimated Number of Jobs Created in Host Countries	2,700	3,680	2,920	1,720	7,800	8,800	7,200	34,820

of favorable development in the private insurance market, it is gratifying not only to us but also to investors at large. MIGA will be very pleased to collaborate with private insurers and reinsurers to enlarge the scope and depth of the market.

C. *Transparency and Governance*

The next subject is the harmonization of the Corporate Values and Societal Values. Here, I am talking about Transparency and Governance Issues.

MIGA is also trying to set high standards for its products by upholding those values commonly accepted by a society. In this modern world of business, "transparency of business" and "external surveillance on institutional governance" have to be given high priority. Until very recently, business society at large, including national agencies, have been very keen about the confidentiality of private transactions and did not show due respect for disclosure and inspection. However, today, a public institution has to demonstrate appropriate response to those concerns coming from other stakeholders while, of course, providing due respect to the confidentiality of proprietary information obtained from the project owner. The question is how to strike the balance between the interests of private investors and those of stakeholders, if there are conflicts between them. MIGA is, therefore, **looking into a new policy or**

procedure in these respects together with its sister organizations within the World Bank Group.

D. *Standard-Setting in Technical Assistance for IPAs/Investment Marketing Services*

Lastly, let me touch upon the standard setting in technical assistance activities of MIGA. MIGA offers certain technical assistance through its Investment Marketing Services Department in order to complement its Guarantee Services.

In the case of MIGA's guarantees, its clients are very agile private investors who find projects by themselves, conduct feasibility study by themselves, and if it is found feasible, both financially and technically, they will arrange financing of the project with their own bankers. And only if they are concerned with political risk features of the project will they come to purchase risk coverage from MIGA. When MIGA removes those concerns by its insurance coverage, the capital will flow, finally. Therefore, MIGA insurance plays an instrumental role for developmental purposes.

However, there are many other factors which affect investment decision-making. Political risk insurance is only one of those. More importantly, investors have to identify a suitable project and have to conduct a feasibility study. What assistance do

TABLE 2. *Guarantee Portfolio by Host Country*

Host Country	Share (%)	Host Country	Share (%)
Brazil	7.2	Trinidad and Tobago	2.2
Peru	6.9	Uzbekistan	2.2
Pakistan	6.0	Chile	2.1
Argentina	5.4	Slovak Republic	2.1
China	4.9	Ecuador	1.9
Russia	4.8	Hungary	1.8
Indonesia	4.5	Bulgaria	1.4
Jamaica	4.4	Costa Rica	1.4
Poland	4.2	Nepal	1.4
Turkey	3.6	Honduras	1.3
Papua New Guinea	3.4	South Africa	0.9
Czech Republic	2.9	Kazakhstan	0.8
Tunisia	2.9	Uganda	0.7
Kyrgyz Republic	2.6	El Salvador	0.4
Philippines	2.6	Ghana	0.4
Venezuela	2.6	Morocco	0.4
Bangladesh	2.4	Saudi Arabia	0.4
Guyana	2.2	Madagascar	0.1
Kuwait	2.2	Tanzania	0.1
Mali	2.2	Vietnam	0.1

Note: As of June 30, 1996.

they have to obtain to secure reliable information in these respects?

In the aftermath of the debt crisis during the 1980s, people came to realize the importance of FDI. In recognition of the desirability of FDI, the governments in many developing countries started to create Investment Promotion Agencies (IPAs) with various names such as Foreign Investment Promotion Board, Tourism Bureau, Bureau of Mines, etc.

In 1993, MIGA gave to these agencies a **generic term and an acronym: IPA**, which stands for Investment Promotion Agency. Whether they are separated from regulatory authority or not, these are agencies which will play an instrumental role in attracting FDI to the countries to supplement and complement insufficient domestic savings to finance the development needs of the country. MIGA has reformed its technical assistance services in 1994 and decided to **assist those national IPAs in three dimensions:**

- (1) MIGA will assist national IPAs in disseminating information on investment opportunities.
- (2) MIGA will assist national IPAs in their own capacity building in terms of marketing the country and the investment opportunities and managing relations with potential clients through MiS software or through training and workshops.
- (3) MIGA will conduct direct support to their activities in terms of sector-wide promotion activities such as mining and tourism in a multi-country effort.

We renamed MIGA's technical assistance activities for IPAs the "Investment Marketing Services" (IMS) — in other words, MIGA has completely withdrawn from so-called policy advisory services, leaving them in the care of our sister organizations such as the World Bank and IFC. MIGA is now a partner of national IPAs to jointly promote FDI for development purposes. Here, MIGA has set a number of standards:

- (a) a standard regarding the direction of the investment promotion effort.
- (b) a standard in sharpening up the differences with other institutions, offering technical assistance.

Let me illustrate these in more detail. Firstly, as early as 1993, MIGA launched the concept of **IPAnet**, which was to explore the possibility of the Internet for dissemination of information on investment opportunities. In 1994, we launched the prototype model of **IPAnet**. In 1995, we launched Version 1 of **IPAnet** and in 1996, Versions 2 and 3. These efforts, which have utilized top-ranking technology, have resulted in the setting up of the most advanced scheme of information shopping mall which will enable **information sharing between the public sector** (national governments and international agencies) **and private sector investors and researchers**. It is greatly in use by a wide range of users from 90 nations free of charge, and IPAs and private companies are rushing to take up billboards paying \$2,000 per year to provide **correct information on real-time basis** regarding the products and services they are selling and investment opportunities and factors affecting investment decisions. This information includes that of the contact point to get more information and to clarify questions. Information in the **IPAnet** is being continuously updated by the providers themselves.

Secondly, MIGA developed management information system (**MiS**) software which can be installed on PCs of IPAs in order to keep track of ongoing relations or past relations with their own client investors. Version 2 of the **MiS**, which is compatible with Windows, is now available for any IPA that wishes to utilize it in order to upgrade their internal business handling capabilities. MIGA also runs many **workshops** in which participants from national

IPAs may learn what the concerns of investors are and what information is necessary to reach investment decisions. Training is also made available for managers or trainers of national IPAs. In this way, MIGA is clearly setting standards of quality for investment promotion services worldwide.

Thirdly, MIGA initiated **multi-country promotion efforts for two major sectors** that were neglected in the 1980s, either due to the debt crisis of the 1980s or due to the belief that tourism has to be dealt with by private sector initiative. When MIGA initiated the **African mining conference** in Denver in May 1994, 18 African mining ministers were invited to meet with major mining companies in the North American continent and from Europe and Asia. It was continued in subsequent years in Toronto and Montreal. This year, it is going back to Denver. The number of African countries participating increased to more than 30, and they report that the number of queries from potential investors has significantly increased as a result. Marketing skill improved significantly and really contributed to the increase of investment flow into the African mining sector. This success of multi-country promotion activities has been replicated for the **Southern Republics of the former Soviet Union** in the last two years. It was also replicated for **Tourism in Latin America and the Caribbean, Asia and the Middle East**.

While the World Bank was shying away from tourism sector lending in the 1970s and '80s, the tourism market has grown significantly. Attracting the tourism flow is vital for certain nations' foreign exchange earnings.

Within the changing environment where ecological concerns have to be addressed with much careful analysis, many national governments have changed their

TABLE 3. MIGA: Diffuser of Foreign Direct Investment

TOP 12 COUNTRIES RECEIVING FDI			
Country	Ranking in 1995	MIGA Guarantees in US\$ End FY96	Percentage of Total MIGA Guarantees Outstanding End FY96
China	1	112,340,000	4.9
Malaysia	2	0	0
Indonesia	3	101,458,000	4.5
Hungary	4	40,966,000	1.8
Mexico	5	0	0
Argentina	6	122,410,000	5.4
Brazil	7	163,820,000	7.2
Thailand	8	0	0
Chile	9	47,300,000	2.1
Poland	10	95,820,000	4.2
Greece	11	0	0
Nigeria	12	0	0
TOTAL		US\$684,114,000	30%

Source: World Debt Tables 1996 and MIGA Annual Report 1996.

Note: The World Debt Tables state that the top 12 countries get 80% of the total FDI (preliminary estimate).

THIRTEEN IDA COUNTRIES		
Country	MIGA Guarantees in US\$ End FY96	Percentage of Total MIGA Guarantees Outstanding End FY96
Pakistan	137,431,000	6.04
China	112,340,000	4.93
Kyrgyz Republic	59,250,000	2.60
Bangladesh	54,303,000	2.38
Mali	50,000,000	2.20
Guyana	49,878,000	2.19
Nepal	32,827,000	1.44
Honduras	29,959,000	1.32
Uganda	15,048,000	0.66
Ghana	9,850,000	0.43
Madagascar	1,939,000	0.09
Vietnam	1,915,000	0.08
Tanzania	430,000	0.02
TOTAL	US\$555,170,000	24.38%

Source: MIGA Annual Report 1996.

mind to develop eco-friendly tourism projects where they can take a leadership role in appropriate infrastructure building, balanced development of the service sector, leisure industry, creating jobs and demand for goods and services from the local economy. In a sense, **in the '90s, many governments of developing nations have changed their strategy:** rather than let the private sector handle everything, govern-

ment is taking more of a leadership role in promoting tourism projects for the benefit of local development or harmonized distribution of income to avoid the concentration of employment in cities. MIGA's entry into multi-country promotion in the tourism sector was very timely. Today, MIGA, although small in size, is a major player in the tourism sector promotion business.

III. CONCLUSION

So far, I have explained how MIGA is taking an innovative approach in the investment promotion business and how it sets a standard both in guarantee and in investment marketing services. We are an institution of less than 100 people serving 139 full member countries. The size of the budget and personnel employed are very small, indeed, yet I am very happy to report to you that we have been able to find good supporters who are willing to purchase innovative ideas and quality products backed by client orientation. Although the world economy continues to be turbulent and volatile, it is heartening to observe that there is still room for a small international business to succeed and play a leadership role.

Thank you very much for your kind attention.

SPEECH ON
"CORPORATE VALUES OF MIGA"
MIGA LUNCHEON

IMF-World Bank Group Annual Meetings 1996

WASHINGTON, D.C.
October 1996

This speech was delivered at the MIGA luncheon, traditionally held during the Annual Meetings of the IMF-World Bank Group institutions. The audience was comprised of the representatives of private sector MIGA clients, leaders of national and regional guarantee agencies, representatives of shareholders, etc.

In this speech, I defined MIGA's corporate values (speed and quality) and further, went on to define the factors which will determine the quality of our guarantee products. This is the first time, I believe, that the quality of insurance product was defined. While others have touched on quality, often in the abstract, I have not been able to find written material that delves into the substance of the matter. My speech also deals with bureaucracy, which any institution has to deal with. Since the World Bank Group was under the change-management initiative launched by President Wolfensohn, this speech was timely.

MIGA'S CORPORATE VALUES

(Values of the Converted)



Speech by Mr. Akira Iida
Executive Vice President

MULTILATERAL INVESTMENT GUARANTEE AGENCY
at the MIGA Luncheon

October 1, 1996

Ladies and gentlemen: It is a great pleasure for me to welcome you to this luncheon which has become a MIGA tradition since 1992. Walking on the streets of Washington, DC, one can notice many shops proclaiming "since 1962," "since 1939," etc. Coming from a country of old traditions, one will be struck by a strange feeling for an instant, but will then realize how important "tradition" is to this young nation. Likewise, MIGA, as a young institution, wants to keep the good traditions. The same applies to the size of the Annual Report also. As you know, the Annual Report of the World Bank and the IFC are both American letter-size (approximately A4 size), whereas MIGA's is the smaller B5 size. I can imagine how thick it will become if the World Bank and the IFC adopted B5 size for their Annual Reports. There may be other reasons for them to opt for American letter-size. But it is not our problem. Our major concern is how to attract the reader's eye to our activities. The Annual Report is one important marketing instrument of MIGA. Therefore, it is designed as a handy guide book on MIGA's business. MIGA's Business Profile brochure is edited to give a self-explanatory view of MIGA's business over the past seven years.

Non-standardized size of the Report, a lot of photos and charts are just adopted to attract the client's attention. Now, while

I was talking about the Annual Report, some of you have already gone through the Report and the Brochure and have already figured out how it can help you to understand MIGA's business. My purpose has been achieved, so I will stop talking about the Annual Report!

These days, corporate executives may be asked a lot of questions:

- What are the objectives of your business?
- What are your strategies?
- What are the guiding principles of your business?
- What is your vision?
- What are your values?

These questions may come from your Board, your boss, your staff, or your clients. If you can write up a paper on these questions in one or two hours explaining the conceptual difference between objectives, strategies, business principles, vision, values, etc., and give some thoughts on what they should be in the case of your business, you are a truly great bureaucrat.¹

¹ As to the "objective" of MIGA, it is very simply explained in the Annual Report. As to the "strategies" of MIGA, this has been discussed with the Board during the Budget discussion. As to the "Guiding Principles" of business, it was clarified in the Summer of 1994 and Mr. Wolfensohn made it clear that he will support it. "Vision" will include all aspects of the above three, and it will be shaped more importantly on the basis of the analysis of the situation where the business stands. It is often a statement of leadership which is subjective rather than objective and, by its nature, provocative rather than persuasive.

The late Mr. Preston, the former president of the World Bank, came to a farewell reception for an ex-official of the Japanese Ministry of Finance (MoF) and raised a question in his speech: “The World Bank and MoF — which is more bureaucratic?” Nobody dared answer that question.

When Mr. Wolfensohn came in as the new president of the World Bank last year, I told him this anecdote. He asked me, “What do you think?” I replied, “Well, Mr. Wolfensohn, whether it is of the Bank or of the MoF, if the bureaucracy cannot help increase business efficiency, it should be called “idio-cracy” rather than “bureaucracy”. Bureaucrats came into being in the 17th century to protect the French monarch from various risks and to provide efficiency in his administration which was ever expanding.² I don’t know whether my answer was right or not, but it is a fact that *both bureaucracies are under fire today*. In the World Bank, under the strong leadership of Mr. Wolfensohn, the process of Change Management has started to rebuild its business culture. Mr. Wolfensohn and the Bank’s management are determined to reduce its bureaucracy. And in Japan, MoF is under strong political attack because of its power concentration. Some sort of restructuring of MoF may be inevitable. You may ask, then, am I not a bureaucrat myself? My answer is “yes” and “no.” “Yes, I was a bureaucrat until 7 years ago — but no more”. “What are you, then?” “Well, I am the Converted,” I should say. Indeed, MIGA staff are the group of the converted. We reject any form of bureaucracy and we are committed to creating a new business culture and a new tradition which will

²The determinant factor which distinguishes “The Rising French Monarchy” from “the twilight of Imperial Spain” in the early half of the 17th century is the strength of Richelieu’s centralized bureaucracy and the weakness of Olivares’ bureaucracy in uniting the divided interests of Imperial Spain.

make sense. Let me talk about the **values of the Converted today**.

MIGA is committed to provide its quality services to its clients in a timely manner. In other words, “**speed and quality**” are the corporate values to which MIGA attaches the utmost importance.

About “**speed**” there will be no need for further explanation. However, it may be useful to reflect upon what the **quality** of the insurance product is. How do you define the quality of the insurance service? This is the question and here is my answer:

They are:

- (a) The simplicity and flexibility of the insurance contract design.
- (b) Liquidity cushion to secure claim payment.
- (c) Problem-solving capacity backing up the insurance contract.
- (d) Innovative approach in exploring the potential of the insurance market (corollary, positive impact on the insurance market).
- (e) Favorable impact on other values commonly upheld by society (e.g., environmental standards).

Let me explain these factors affecting the quality of insurance services one by one, learning from the experience of MIGA.

First: The simplicity and flexibility of the insurance contract design.

The design and structure of the product has to be user-friendly and it should be simple to understand and flexible to respond to the users’ needs. As you know, MIGA has very complicated operational regulations which were designed from the viewpoint of prudential control and prevention of

deviation from its developmental mandate. Nevertheless, I am very pleased to report to you that, despite this complexity, MIGA has designed and developed its product which is simple to understand and flexibly meeting the needs of clients.

Let us take an example in certain “breach of contract” by central and local governments. This type of claim case is actually taking place from time to time in certain countries where the “rule of law” is a relatively new experience. Sometimes it takes the form of retroactive taxation by municipalities or other local governments. Usually, in order to make a case for breach of contract, the claimant has to establish that there was such a breach of contract by the government. In most cases, the counterpart government will argue against the case. As far as the dispute is not settled, the insured will not get paid. In any insurance agency, whether public or private, the claim payment has to be audited and there should be enough evidence which will justify such a payment. I am saying here that breach of contract is certainly one kind of political risk for which private investors wish to obtain risk coverage. However, legally speaking, this is the most arguable area in the risk insurance business. Against this background, the concept of “creeping expropriation” has been developed whereby the insured will get paid only if the simple fact is established that the business cannot be continued because of any action or inaction by central or local governments, etc. In this case, you don’t need to argue whether the contract was breached, who is responsible — central or local government, etc. The client has to establish that certain action or inaction by governments to which the client is not responsible has caused enormous difficulties which will oblige them to discontinue the business. This is one example of the innovative approach to enlarge the concept of expro-

priation to flexibly meet clients’ needs in a simple and understandable way.

Second: Liquidity cushion to secure claim payment.

Another generic factor determining the quality of the insurance product is, of course, **institutional capacity** to meet the claims. Even if the contract is simple and user-friendly, if MIGA cannot pay the claim, it is entirely useless. In this context, let me draw your attention to page 15 of the Business Profile (page 112 in Annexes). You will find there MIGA’s rate of return on assets (ROA). It was declining until 1992, but since then it has recovered remarkably and it has reached a level of excellence. In other words, in the usual standard of corporate business, MIGA is a profitable institution. But, I have to immediately add a qualification to this remark by saying that MIGA is not a profit-seeking institution — as a member of the World Bank Group, MIGA is a development institution and its mandate is to promote Foreign Direct Investment (FDI), not to seek maximization of profit. MIGA’s Convention requires MIGA management to allocate all of its net income to reserves until it reaches 5 times the total subscribed capital. Therefore, all the net income MIGA is producing is put to reserves to meet future claims.

The evolution of MIGA’s premium income is illustrated on page 6 of the Profile brochure (page 103 in Annexes). For FY97, the projected premium income is about US\$27 million. How much claims payment will be expected in the future? We don’t know. We are still running a claim-free record, but let us assume just for illustrative purposes that 0.5% of the total cumulative amount of contingent liabilities may be claimed in each year. The order of the annual claims payment may be US\$11.5 million. The rationale for assuming a 0.5%

figure as an ordinary stream of claim payment (as a usual business expenditure in the insurance industry) comes from the experience of one of the largest and oldest national insurance programs. Since we do not have an actuarial basis in the field of long-term investment risk insurance business, I have just borrowed this statistical experience of our partner institution. But the comparison of the possible order of annual claims and the annual premium earning capacity tells us that MIGA has enough capacity to deal with such an ordinary claim payment as experienced by national agencies in an average year. Nevertheless, if a large extraordinary claim takes place, MIGA's reserves may be wiped out in one or two shots and consequently, MIGA may be vulnerable to the consecutive occurrence of extraordinary claims. Because MIGA has callable capital, there is no doubt about MIGA's solvency — but here I am talking about the liquidity cushion to meet claims. In order to cope with this concern, and also for the purpose of gaining more guarantee capacity to stay in business, MIGA is now addressing the capital adequacy issue. One of the concerns for MIGA clients is whether the shareholder governments will provide enough cash injection for MIGA to be able to meet a series of consecutive extraordinary claims. In this respect, I will report to you on the outcome of our negotiations probably next year.

Third: Problem-solving capacity backing up the insurance contract.

To get a claim payment and to exit from the place of business are not the ultimate goals of our clients. They have planned the investment projects which MIGA insures and spent a lot of staff time and financial resources to prepare the project. This is the business from which they want to raise the appropriate level of profits. Therefore, whenever there is a conflict surrounding their business, they want to solve the prob-

lem first. They will try to stay in the host country as far as it is possible to. An exit from the business is the last choice which they will make.

The clients of MIGA expect certain problem-solving capacity from MIGA. In the case of bilateral agencies, they may conceive of economic sanctions at a time of bilateral conflicts. In more ancient times, they brought warships and cannons to solve the problem and this is still happening today in certain areas. But, as an international organization, we have no cannons and no warships. We have to solve the problem amicably. But, it is to be remembered that the host country government is also a shareholder of MIGA with which MIGA concluded an investment protection agreement. As far as continuation of governance is secured, member country governments are willing to collaborate with MIGA to solve the cases. In fact, we have experienced during '94/'95 a kind of near miss case in which MIGA was very successful in collaborating with both parties (investors and host country governments) in order for them to reach an amicable solution, and the investor opted to stay in the country. MIGA's mediation function is also at work in various investment disputes in Africa, the Caribbean and Asia. This kind of problem-solving capacity will clearly represent the quality of MIGA services.

Fourth: Innovative approach in exploring the potential of the insurance market.

(Corollary: positive impact on the insurance market)

The innovativeness of the business approach also determines the quality of services. In this respect, I would like to point out that MIGA has already started the so-called CUP (Cooperative Underwriting Program) in which MIGA will ask private

insurers to join MIGA's guarantee program in a sort of collective coinsurance scheme and to delegate the power of claims-handling to MIGA. This approach has been and is being explored in Jamaica, Indonesia, Colombia and Argentina and is estimated to grow further. The CUP Program was born out of MIGA's need to minimize the utilization of guarantee capacity in one project, in order to catalyze the maximum number of projects with a small amount of guarantee capacity utilization. However, quite recently, there seems to be some favorable change in the private insurance market. The so-called **proportional treaty** may seem to be emerging in the private insurance market as an instrument for private insurers to participate in and explore the potential of the long-term political risk insurance business. Until recently, private firms were quasi-non-existent in this particular business area simply because of the lack of an actuarial basis for measuring risk. However, recently the American International Group (AIG) has decided to go into this business area with an insurance period of 7 or more years. MIGA welcomes this change as a positive development and as a challenge for building new relationships of complementarity. I gather that this kind of recent change in the private insurance market has something to do with the success of MIGA. "MIGA has made a case that it can run a business, starting from scratch, with a claim-free record and much profitability. The demand in the market seems to increase and there seems to be unsatisfied demand. Although there is no reliable actuarial data, this is an attractive area. Why don't we try to test the water?" This may be the likely line of thought in the private insurer's mind. And if so, it is gratifying to observe that MIGA is having a positive impact in the market through its success story.

The proportional treaty may open another window — for the **securitization**

of MIGA's existing portfolio allowing private firms to receive a portion of the premium income stream of MIGA deriving from a set of existing portfolio and also requiring the same firms to share the responsibilities to meet claims on a *prorata* basis when such claims arise from a component of the selected portfolio. The right of receiving premium and obligations to meet claims will be the major component of the security. This idea is just an extension of the concept of proportional treaty practice, just emerging in the insurance market. I am simply suggesting that the window for a new opportunity may be opening. We will still need to explore the sense of the market but we try to be innovative in our business transactions. All this exploration is necessitated by the small capitalization of MIGA. A proportional treaty will economize future utilization of guarantee capacity, and securitization will increase the headroom for underwriting at the expense of reduced premium income. However limited the possibility of such undertakings is in terms of volume, we ought to be innovative enough to explore fully the possibilities of the market, and this will be one of the roles expected of an international organization such as MIGA.

So far, I have touched upon the quality of MIGA's services especially from the client's point of view. But, there are other qualities of service demanded by the fact that MIGA is an international agency.

Fifth: Favorable impact on other values commonly accepted by society.

The principles of transparency and of institutional accountability have to be respected. In my personal view, the corporate business culture of the 1990s in certain industrialized countries has changed to a great extent from that of the 1980s. We have crossed the point of no return. Disclosure

requirements have been strengthened by many corporate entities and external inspection is expected of many public institutions including national and international agencies. Governance issues have been a major concern both in public and private entities in certain industrialized countries. In this environment, the speed of service delivery may be affected, but overall quality control of the product may be enhanced. A good example lies in environmental standards. As environmental concerns increase, the standard has been raised and the best practices will be accepted as the new standard. This may necessitate a fresh look at disclosure, inspection, and internal business processes. MIGA is about to introduce the business quality management function into our Guarantee Department in order to look at all these aspects together. This is a new challenge for MIGA management, since it may scare off a certain number of potential clients. But we believe that we have to accept that the rules of the game have changed and that the new rules will be fair to all the stakeholders.

So far, I have discussed the corporate values of MIGA and explained how we will define the quality of MIGA services. I did not have time to mention MIGA's products in the technical assistance area, but the same concept of values applies to them also. As you know, MIGA has many innovative products such as *IPAnet*, MIS, CD-ROM in mining and tourism sectors, and other IPA capacity building services such as training and workshops. I would like to yield my explanation to that given in MIGA's Annual Report from pages 42-50.

To conclude, MIGA is making its best efforts to provide quality services in a timely manner. During the last fiscal year, MIGA conducted a customer survey which revealed that MIGA's guarantee clients have a high regard for our services, client orientation, cost efficiency, and results orientation.

I am pleased with the survey results, but I know that there are many more efforts to be made in order for MIGA to become a truly excellent company. And for this purpose, we welcome your suggestions and guidance in the future.

Finally, I should like to ask you one question to think over after this meeting. I have explained the values of the Converted. What do you think, then, are the values of Bureaucracy? In my mind, the major difference lies in that, while the Converted focus primarily on clients' interests, bureaucrats are ambivalent between seeking the interests of the public and those of their own organization.

Thank you.

Akna Idu, Executive Vice President



LONDON SPEECH ON
"INFORMATION SHARING BETWEEN THE
PUBLIC AND PRIVATE SECTORS"
March 1996

This speech was delivered at the meeting of export credit and insurance agencies of the NIS/CEE Region (Central and Eastern Europe and Former Soviet Republics) which was sponsored by the European Bank for Reconstruction and Development (EBRD) and the International Committee for Economic Reform and Cooperation in March 1996. In this speech, I called for partnership for information sharing between the public sector (national governments and international agencies) and the private sector. The reason for this is the difficulty that private businesses have in obtaining updated information regarding factors affecting investment decisions — macroeconomic and microeconomic or financial statistics, data on regulations concerning the environment, labor, foreign exchange transactions, etc. This information is held by independent ministries or agencies and is not efficiently collected in one-stop shops. Recognizing these difficulties, MIGA has been developing, since autumn 1993, an Internet facility called the IPAnet which is an information shopping mall (on trade and investment) constructed on the web site. In calling for partnership for information sharing by the relevant organizations and agencies, I have suggested the use of IPAnet as the instrument of choice for this endeavor.

INFORMATION SHARING ON EMERGING MARKET ECONOMIES



Statement by Mr. Akira Iida
Executive Vice President

MULTILATERAL INVESTMENT GUARANTEE AGENCY
*at the International Meeting "Developing Export Finance
& Insurance in NIS/CEE"*

LONDON
March 11-12, 1996

INTRODUCTION

I should like to propose taking a fresh look at the issue of information sharing in the marketplace with respect to emerging market economies in the NIS and Central and Eastern Europe.

In order to develop institutions in the region which will deal with export finance and/or insurance, it is critical that business information flows appropriately across borders. Whether the transaction is trade (export-import) or direct investment, "finance and insurance" come after the "business decision" by private sector entities undertaking such transactions.

In order for a business to reach important decisions, it is necessary for it to examine the economic, financial and technical feasibility of such transactions, including various risk analyses which cannot be done without the appropriate provision for quality information about those factors.

Try to imagine the case of a European carmaker considering the options

between (a) building an auto-assembly factory in one of the countries in the region and (b) exporting the finished cars from the factory already in existence in Western Europe. The following questions come to mind immediately:

- (1) What is the absorptive capacity of the emerging market in the region?
- (2) What are the trade barriers between countries within and across the region?
- (3) What is the total cost involved in such a new investment plan (Option A) and what is the comparative advantage of such new investment over continuing trade (Option B) in the longer run?

In order to answer these questions, you have to know the essential features of regulations with respect to:

- trade and investment
- local commerce, especially the distribution system
- environment
- infrastructure (power, water, roads, sea/airports) and future expansion plans, etc.

In addition to this, market-related information should be available with respect to:

- the size of the existing car market
- the demographic composition of the people
- availability of skilled labor
- labor costs
- welfare costs which the private sector should share with the local or federal authorities, etc.

Let us consider for a moment how private business obtains such information.

Firms often employ specialized consultants, in addition to their staff, to gather the necessary information, piece by piece. Sometimes they send a fact-finding mission to make a comprehensive feasibility study, which costs a lot of time and money. When a survey is made, they have to go to the executive board asking for an important decision, but, alas, the information is often outdated. In an emerging market, things change so rapidly that two- to three-year-old figures are not reliable.

It is true that the regulatory framework should be friendly to investors and/or traders. But a market-friendly regulatory framework is not sufficient to induce trade or investments; it is a necessary condition, but not sufficient by itself.

Likewise, establishment of export finance and insurance institutions in the region is not a sufficient condition, although it is an important one to catalyze transactions, especially in case they are blocked by risk concerns.

What tends to be overlooked here, however, is the importance of information sharing, vis-à-vis private-sector businesses. Such a partnership is necessary for transactions to rise and for the region to prosper.

Such information sharing is vital also for any export finance and insurance institutions which you may wish to create in the future, since they may not be in demand if transactions are poor.

PARTNERSHIP FOR INFORMATION SHARING

Most of the information critical for decision making in any private business transaction (trade and/or investment) is already in the hands of governments or international organizations (EBRD, IMF, World Bank Group, etc.). Governments design the regulations affecting the whole range of private-sector activities. Governments also conduct the long-term planning for infrastructure, labor force, environmental requirements, etc. Governments also undertake periodic statistical surveys of those factors affecting national economies, such as expenditure, income allocation, production, labor force, etc.

Governments are in charge of general education and offer training opportunities for certain specialized skills mix. Governments, therefore, are the largest retainers of information relevant to private business. Yet this information held within government is so fragmented and not systematically assembled. As a result private business is confronted with a huge information barrier. In order to get the whole picture of a country's investment climate, a consultant team often has to spend weeks wandering from one ministry to another. Then this is repeated by another consultant team for other investors. Millions of dollars are wasted these days in such overlapping exercises because of deficiencies in the ability of governments to promote or market their business opportunities effectively.

International financial organizations are, likewise, required by their mandates to systematically collect and analyze information on these matters. They conduct periodic country surveys of the general economic and financial condition of their member countries and other surveys on specific areas in connection with their business operations (short- or long- term financing or investment, non-lending services such as policy advisory services, etc.). However, this information is hidden deeply in their own databases to which private-sector business is almost always denied access. Here, also, we see the occasional and fragmented publication of some of their analyses and statistical data but, in these days of rapidly changing market conditions, any information is almost outdated by the time it is printed. Therefore, it is imperative, in the present business environment, that private-sector businesses have access to more accurate, timely information on whatever subject that interests them.

To this end, governments and international organizations can collaborate as partners. It doesn't cost much money; you don't need to create special organizations to work on this, nothing. All that is needed is the willingness to collaborate, plus a little bit of common sense to make a sensible judgment regarding whether the economic, financial or business data or any other information which you hold is really sensitive and confidential. What harm will it do if this information, data or analysis is made available to private business or NGOs? What are the pros and cons and which is larger? When you reflect on these issues, the next thing is how to supply this information to the business world. Will this be difficult? Don't worry! MIGA proposes its IPAnet facilities as the vehicle of choice for such information dissemination!

IPAnet FACILITIES

1. The Age of Internet

As you know, today's Internet (satellite-supported international network of networks) is considered not only an information highway, but also the world's largest marketplace. Various private businesses prepare their own home page on Internet in order to convey information needed for their own public relations activities. Through their Internet Home Page, they try to inform the general public of such things as:

- who runs the business;
- what are the company's products;
- how the distribution network is constructed;
- what is the financial structure of the business;
- what is the corporate policy;
- how environmentally sensitive they are, etc.

Further, private business is utilizing the Internet for the specific purpose of regional or sector-wide commercial networking or even for the electronic mail-order business. National business associations, trade associations and financial communities are also frequent users of the Internet.

Against this background, some national or local governments are also hooking onto the Internet and starting to communicate to their people about their policies, services and so on. Some of the multilateral development banks (MDBs) are also becoming strong supporters of this movement. The World Bank Group institutions (IBRD, IDA, IFC, MIGA) have their own home pages linked to each other. With a search function built in, the user has broad access to service information and

databases. The World Bank Group Home Page, in due course, will be an instrument not only for public relations, but also for disclosure (the principle of transparency) and for a more sophisticated way to learn about the development business.

Indeed, the present age is the age of Internet. Without being a part of this information exchange through Internet, you will be severely handicapped in your business, whether public or private.

2. The Concept of IPAnet

MIGA has the statutory mandate for disseminating information on investment opportunities. MIGA's core function is the investment risk insurance business, which will catalyze foreign direct investments that would otherwise be discouraged by the political risks confronting investors. However, dissemination of information on investment opportunities is also an important factor inducing investment decision making. As we face the age of Internet, MIGA's Investment Marketing Services Department has developed a new Internet facility called IPAnet. "IPA" is the acronym for investment promotion agencies of member countries. An IPA can be a part of a ministry or an independent agency, but IPAs are the bodies which market investment opportunities in their own country. (In most developing economies, ministries play a role in promoting business opportunities, especially in mining, petroleum, small industry and tourism. For overall promotion of investment in agriculture, forestry, fisheries, manufacturing and service sectors, many countries have an independent agency or a unit linked to the Prime Minister's Office, the Ministry of Finance or the Department of Industry or Commerce. So the notion of an IPA is a very general one and does not necessarily mean that these agencies have the same name.)

IPAnet is, so to speak, an information shopping mall to which MIGA invites national IPAs to come and open an information shop to promote their own investment opportunities. Of course, in order for any shopping mall to be successful, it has to accommodate as many visitors as possible. Therefore, IPAnet invites any business, private or public; any business association; any government, central or local; and any international organization to come and open an information shop and display any business-related information — whether on investment opportunities, on business conditions, for the purpose of disclosure, or for public relations or commercial advertising.

IPAnet also embraces a lot of databases which are already available in the marketplace (namely on the Internet). Elements of the World Bank Group's database are already available on IPAnet, and more will be added. In the meantime, registrants in some 50 countries are already using the IPAnet, and the supply of information regarding regulatory and macroeconomic conditions and sector-based business information is improving day by day.

I call Internet "a marketplace" and IPAnet "a shopping mall". What is the difference, then, between "a marketplace" and "a shopping mall"? Take, for example, the city merchants and shopping malls in the suburbs. If you have ever visited Washington, D.C., or New York, you will notice that there are many famous shops in the center city. They are independent of each other and sell different types of goods, but the shoppers have to go around many blocks to purchase what they want. On the other hand, a shopping mall in the suburbs provides a lot of functionality for shoppers because, from specialized shops such as cameras, shoes, beauty parlors and restaurants to large-scale department stores, they are equally tenants of these shopping malls.

Therefore, you can find many goods of different quality in one place.

Internet is a marketplace where millions of businesses exchange information. However, it needs a special device to assemble necessary information and customize it for your own use. *IPAnet* is an Internet facility which was designed specifically for that purpose. In other words, MIGA's *IPAnet* may be the first global business information shopping mall ever conceived.

Governments participating in this meeting are invited to edit their own Internet home pages, including governmental organization structure, administrative service guides, regulatory information, macroeconomic indicators, economic and financial statistics, information on labor, infrastructure, etc., and then hook up on *IPAnet*. You can do it quite easily if your ministries collaborate to this end. Once the country's home page is on the air, *IPAnet* will automatically reclassify the data by their nature. In case a viewer wants to find particular information on particular country, by simply typing in key words such as "hotel" and "Russia," for example, all the data including those words will appear on the screen one-by-one until the viewer is satisfied. This information on data provided by governments will easily be complemented by a more comprehensive find — well analyzed databases provided by international organizations.

These days, both governments and international organizations are asked to respect the principles of transparency and external accountability. In this context, many governments and international organizations are prepared to utilize Internet as an instrument of both disclosure and accountability, and further, they are willing to utilize it as a public relations instrument. *IPAnet* is an Internet facility which is de-

signed specifically to suit these purposes and offer the utmost functionality, such as wandering from one shop to another just by one click of the mouse. It is also equipped with today's hot business news conveyed by international news agencies or local or national business news. It is also equipped with a private club function which will provide you with an opportunity to conduct a closed membership information exchange with your business partners. You can even send E-mail just by clicking the mouse to any person who has also subscribed to, or provided information for, *IPAnet*.

IPAnet is managed in a way which assures that quality information is available from the source to all those entering the shopping mall. Students and other Internet-surfers who lack a business purpose will be kept away.

IPAnet has been in a start-up, construction and test phase since November of last year and will continue to stay in that mode until the end of June. During the test-run period, the use of *IPAnet* is free of charge, and MIGA is seeking feedback from users while it adds subscribers' databases and completes the functionalities of the system. (If your country has "Internet Access," you can easily register yourself on *IPAnet* by typing in its Internet address: <http://www.ipanet.net>).

Starting July 1st of this year, MIGA will charge those entities which want to open an information shop in the Members' Billboard \$2,000 for 18 months ending December 1997. For the shopper coming into the mall, MIGA will charge \$300 for the same 18-month period.

(The reason MIGA charges a fee is just to recover the cost invested and to be prepared to remain on the front line of information-



IPAnet — promoting foreign investment in emerging markets and offering information sharing and marketing opportunities to the international business community. Sponsored by the **Multilateral Investment Guarantee Agency** of the World Bank Group.

REGISTER
First-time users

LOGIN
If you are already registered

ABOUT IPAnet
A Users' Guide

PRIVATE CLUBS
Members only

IPAnet is free to registrants.

IPAnet can be accessed at: <http://www.ipanet.net>

sharing systems with many technological improvements in the future. The pricing policy will be reviewed when the first 18-month period ends. Depending on the number of users, and the comparative advantage vis-à-vis then-existing similar instruments, the fee may be reduced or increased.)

BEFORE CLOSING

I have spent enough time already addressing the issues of partnership in information sharing, which is a vital precondition for transactions in trade and investment, whether within or across the region. This is also a precondition for the development of export-finance and insurance institutions in the region.

You may rightly ask what has been done by MIGA specifically to this end. To answer this question, Mr. Luis Dodero, MIGA's Vice President and General Counsel, asked me to add the following sentence to my statement:

"Under its Guarantee program, MIGA provides coverage against political risks such as war, expropriation and inconvertibility to private investors." Export credit insurance offers similar coverage to exporters, while covering commercial risks as well when the importer is a private company. As a consequence, MIGA has a staff highly specialized in the analysis and prevention of political risk. Although no claims have been filed yet by investors insured by MIGA, a number of the Agency's staff have had previous extensive experience in claims management and salvage.

The Agency's Legal Department, in compliance with the mandate of the international convention which created MIGA, is involved in mediating a number of disputes between investors and host countries. It is also active in advising countries on how to negotiate bilateral investment treaties.

As the specialized member of the World Bank Group focused on these areas, MIGA has advised the World Bank on establishing facilities to provide credit insurance against political risks for exports to Moldova and Ukraine. Within its budgetary and personnel limitations, MIGA is also willing to provide advice on export credit insurance to countries that are members of the Agency, such as those represented here. We believe that a good export credit scheme is an element to attract foreign investment and the encouragement of foreign investment to our member countries is MIGA's "raison d'être."

CONCLUSION

For more information on *IPAnet*, I am prepared to make a live demonstration of *IPAnet*'s facilities during your stay in London. "Seeing is believing!"

Thank you for your kind attention.

**VIENNA SPEECH:
"MIGA AND UNIDO"**

October 1994

This is the speech which was delivered to the meeting of representatives of Investment Promotion Services Offices of UNIDO, held at UNIDO headquarters in Vienna on October 10, 1994. In this speech, I tried to elaborate on the area of collaboration between MIGA and UNIDO's IPSOs. This speech also describes how UNIDO and MIGA started to collaborate at the Dubai Conference on Promotion of Investments to the Middle East held in November 1993. The suggestions continue to remain valid, and collaboration between the two institutions is being enhanced in this light. (Mr. Maruno, Managing Director of UNIDO for investment promotion, visited MIGA in January 1997 and confirmed this.)

MIGA AND UNIDO



*Remarks by Mr. Akira Iida
Executive Vice President*

MULTILATERAL INVESTMENT GUARANTEE AGENCY
at the 11th Industrial Investment Promotion Meeting

UNIDO, VIENNA
October 10, 1994

Mr. de Maria y Campos, Mr. Venkataraman, Ladies and gentlemen: I would like to thank UNIDO for the invitation to address this gathering of its officials in charge of Investment Promotion Services.

Unlike the case of UNIDO, where your IPS network is only one of a number of functions that your agency performs, MIGA is an international organization with a single purpose — the promotion of foreign direct investment (FDI). We address this mandate both through our guarantees services and through our technical assistance services. I am accompanied here today by Mr. Philip Karp, Program Manager for Investment Promotion Agency Services in our Investment Marketing Services (IMS) department.

UNIDO's IPS has been in the business of investment promotion for many years. MIGA, on the other hand, has only been in existence for five years. We should seek, therefore, to develop services that complement those of UNIDO.

Looking first at our guarantee function, the complementarity between MIGA and UNIDO services is clear-cut in the sense that we can offer political risk coverage to projects promoted by UNIDO's IPSOs.

In the case of MIGA's technical assistance services, however, greater explanation is needed in order to clearly communicate the complementarity between our respective orientations and services.

First, however, let me briefly touch on some issues related to the environment in which we operate as international organizations. Each international organization has its own historical origins and statutory mandate. Nevertheless, we all face the necessity of adapting to changes in the social, economic, and technological environments in which we operate. In particular, we all must be mindful of the changing needs of our clients and should be prepared to respond flexibly to the changing demands of our shareholders (i.e., member governments).

Our clients are legitimately concerned with the quality of our products and services, and our shareholders are concerned both with results achieved and with cost-efficiency of operations. Financial integrity is a matter of common concern to both clients and shareholders.

These days in particular, our shareholders are becoming increasingly concerned about the duplication of activities and services of international organizations.

As a result, they are asking us to become more selective in our choice of projects and to collaborate with other agencies to avoid duplication of effort.

For your information, Mr. Chairman, the World Bank Group is committed to work on the basis of the following principles: (1) selectivity; (2) partnership; (3) client orientation; (4) results orientation; (5) cost effectiveness; and (6) financial integrity. In this context, I listened with considerable interest to the opening remarks by Mr. de Maria y Campos. It appears that UNIDO is addressing similar principles in the definition and execution of your own programs.

With the above-listed guidelines in mind, MIGA joined with UNIDO and the Inter-Arab Investment Guarantee Agency in organizing an international investment promotion workshop in Dubai last November. On that occasion, I had the opportunity to meet with Mr. Jean-Marc Deroy, then Director of UNIDO's Investment Promotion Services. Since that meeting, I believe that smoother communication has been established between the management of our respective organizations.

In March of this year, MIGA had the honor of hosting part of the meeting of your IPSOs in Washington. Mr. Zampetti and other IPS officials were in attendance. Subsequently, in July of this year, we had the pleasure of receiving Mr. Venkataraman in Washington, and finally, it is my honor to be here in Vienna today.

Mr. Chairman, as I noted a few minutes ago, it is important that we clearly understand each others' policy objectives, operational strategies, future perspectives, and delivery mechanisms in order to enhance collaboration. We also must understand the

extent to which our views and objectives differ and the extent to which they are similar.

Unfortunately, I do not have sufficient time allotted to me this morning to fully address these questions. Therefore, I would like to leave with you some written information that describes MIGA's technical assistance orientation and services.

However, please allow me to dwell for a few minutes on the new orientation of these activities.

As I suggested to IPS officials in Washington earlier this year, MIGA has recently completed a realignment of its technical assistance function. Article 23 of the MIGA Convention differentiates between investment promotion and policy advisory services aimed at improving the climate for FDI in member developing countries. We believe that the latter function can be best addressed, for the time being, by the World Bank and IFC.

As a result, MIGA has decided to focus its technical assistance exclusively on investment promotion and, accordingly, has withdrawn from the World Bank Group facility known as Foreign Investment Advisory Services (FIAS). In keeping with this change in orientation, our technical assistance department, formerly known as Policy and Advisory Services (PAS), has been renamed Investment Marketing Services (IMS). This change officially took place on July 1, 1994. However, it had been approved by the MIGA Board of Directors in February, so I was already able to outline the change when we met in Washington in March.

A central focus of our revamped technical assistance program is the intro-

duction of new management and marketing techniques designed to enhance the institutional capacity of IPAs and to improve dissemination of information on investment opportunities. By bringing to bear the skills, techniques, and communications technologies of modern industrial marketing, we aim to assist member countries in becoming more effective in attracting and reaping the benefits of FDI.

In keeping with both our capacity-building and information-dissemination functions, MIGA has begun development of a number of cutting-edge electronic tools designed to enhance marketing of investment opportunities. Foremost among these tools is our IPA electronic network. Some of you may recall that MIGA presented to you in Washington in March the original concept of this network, which is called *IPAnet*.

IPAnet is an electronic network focused on information exchange on FDI-related matters, which will be *carried over the Internet*, the so-called "information highway." A prototype of the *IPAnet* system was unveiled just last week in Madrid, on the occasion of the World Bank Group's Annual Meeting. The *IPAnet* will contain directories, bulletin boards, electronic conferences, investor databases, a reference desk, and, most importantly, global electronic communication facilities.

For about the next 12 months, it will be tested among founding members and interested parties which promote and facilitate FDI in developing countries, including IPAs, industry associations, investment advisors, investment finance institutions, business media, governments, and international organizations. Then in the second year, the *IPAnet* will be opened to investors at large.

The *IPAnet* will be an open-ended electronic network, but eligible members will be limited to those parties that have legitimate concerns and expertise on FDI. This restriction is needed to ensure quality and efficiency of information and to avoid junk-mail type communications.

Another of our electronic initiatives is the use of CD-ROM technology as a vehicle for dissemination of information on investment opportunities. Working closely with corporate sponsors and industry experts, we are developing prototype CD-ROM presentations and databases for the African Mining and South American Tourism sectors. These tools allow for presentation of a large volume of information on investment conditions and opportunities in an interactive format. My staff can provide additional information on these initiatives.

In addition, we have a number of products to support information dissemination and IPA capacity building, including our MIS software and Executive Development training programs. Our MIS, for your information, has a different focus than that of UNIDO's investment promotion software, and it is my view and that of UNIDO management that they are complements rather than substitutes for one another.

MIGA is also engaged in more proactive investment promotion activities. In order to offer these services to as many countries as possible within limited resources, we seek whenever possible to support initiatives that can be organized on a multi-country and/or uni-sectoral basis. We have found that multi-country promotion approaches can be highly cost-effective in attracting the attention of foreign investors. To date, IMS has successfully applied this

approach in two sectors — mining and tourism. Again, I regret that I have to leave the details of these programs to our brochures.

Before closing, let me turn to a discussion of possible areas for collaboration between our two institutions. As I noted earlier, MIGA's guarantee services can assist in realization of projects that UNIDO's IPSOs promote. In addition, there is considerable scope for partnership between IMS and IPS.

MIGA operates its IMS programs on a 100 percent cost-recovery basis. We believe that this is the best way to be both cost-effective and quality-conscious. The relationship to cost-efficiency is self-explanatory. As for quality consciousness, we believe that nobody will pay for a low-quality product; hence the policy of cost-recovery ensures quality.

We expect direct beneficiaries of our products and services to be the principal contributors. However, in cases of countries that cannot afford to pay for our services, we look for sponsorship from business associations, potential investors, bilateral donors, or international organizations.

UNIDO, for example, has sponsored a number of our programs. Let me submit to you a memo on MIGA's recent achievements and future perspectives in Sub-Saharan Africa. This is a copy of a speech I delivered to African delegates in Madrid. If any of these programs are of interest to UNIDO, IMS would be delighted to discuss them with your staff.

Let me now suggest four specific areas for possible collaboration. First is cooperation in the promotion of FDI by small and medium enterprises (SMEs). One of the trends in FDI activity highlighted dur-

ing our Global IPA Network Conference in Madrid last week is the increasing involvement of SMEs in FDI activity. We were fortunate enough to have Mr. Sergio Zampetti join us as a panelist in a session focusing on this subject.

We recognize that UNIDO has considerably more experience than we do at MIGA in working with SMEs. I would like to propose that we work together to develop both guarantee products and information-dissemination initiatives geared to the special needs of what is likely to continue to be an increasingly important group of investors.

Second, I would like to propose that we join forces in the development and/or execution of programs geared toward upgrading the capacity and skills of local firms in order to enable them to better understand the needs and requirements of foreign partners.

The third area for potential collaboration is in development of programs to promote South-South investment. We have identified, for example, a need for training/orientation programs for investors from the East Asian newly industrialized economies (NIEs) on business and cultural practices in other parts of the world. We would welcome UNIDO's input in the design and delivery of these programs.

Fourth and finally, I would like to invite UNIDO to join with us in development of the *IPAnet*, perhaps through connection of your IPS offices and/or provision of your databases on project opportunities, project sponsors, and investors.

I hope that we will have an opportunity to discuss modalities for these and other areas of possible collaboration in more detail later in today's program. Until then,

let me close by once again thanking Messrs. de Maria y Campos and Venkataraman for the invitation to join you here in Vienna and by expressing my hopes for a deepening of collaboration between MIGA and UNIDO.

Thank you very much for your attention.

**1995 MIGA LUNCHEON SPEECH:
“CAPITAL INCREASE SHIFT”**

Annual Meetings of the IMF-World Bank Group

WASHINGTON, D.C.

October 1995

This speech was delivered at the traditional MIGA luncheon at the 1995 IMF-World Bank Group Annual Meetings. In the speech, I declared that MIGA will take a capital increase shift. The first endeavor was to convince shareholders and the private sector about important achievements made by MIGA and that it is important for MIGA to increase its business capacity by means of a capital increase to continue to make important contributions for the investment promotion endeavor for which purpose MIGA was created in 1988.

CAPITAL INCREASE SHIFT



*Speech by Mr. Akira Iida
Executive Vice President*

MULTILATERAL INVESTMENT GUARANTEE AGENCY

MIGA LUNCHEON
October 10, 1995

Ladies and gentlemen: It is a pleasure and honor for me to share this pleasant lunch with you and to be able to give you feedback on our activities during the past fiscal year and a brief perspective of the future.

CAPITAL INCREASE SHIFT

Today, we are honored by the presence of the following guests: Members of the Bretton Woods Committee; Heads of national and regional insurance programs; Heads of Investment Promotion Agencies; Senior Managers of the IBRD and IFC; prominent lawyers having expertise on investment-related issues; commercial bankers; representatives of private insurers and brokerage firms; senior managers of big trading firms, etc. Executive Directors and MIGA's managers are hosting those guests at each table.

Looking at the list of guests and comparing it with those of past MIGA luncheons which focused on members from national programs and national IPAs, somebody asked me, "Is MIGA taking a capital increase shift?" Yes, it is.

You may recall that Mr. Wolfensohn said this morning in his opening remarks

at the World Bank Group and IMF Annual Meetings: "There is also MIGA — founded in 1988 — whose goal is to stimulate private investment by insuring against non-commercial risk. In six short years of operation, MIGA has already leveraged total investments of close to \$9 billion in 36 countries. The only constraint on its doing more is its *very conservative capital and gearing ratio* — which I would hope to *take up with our shareholders at some future point.*"

Yes, MIGA's management is considering a capital increase in three years' time, because we are running out of guarantee authority in due course.

DEMAND FOR POLITICAL RISK INSURANCE

You may then ask if there is sufficient demand. Yes, there is. The number of private investors who filed preliminary applications for MIGA's guarantees has exceeded two thousand (Profile page 10, Annexes page 109). Preliminary applications are filed in order to check eligibility for MIGA's guarantee, and when investors indicate to MIGA that they are definitely going ahead with the project, they file a definitive application. Out of 2,000 plus preliminary applications, MIGA has so far underwrit-

ten 166 contracts. The rest of the applications either have been accommodated by national programs or are still in process in MIGA, or did not materialize at all as real projects. But the rate of increase in MIGA's contracts and cumulative numbers of applications is phenomenal. This is *bad news* for an idealist who wishes that political risks would subside in the peaceful and harmonious process of the construction of the new world security order. But this is *good news* for a realist who accepts the state of the world security order just as it is, *because* MIGA is serving its purposes.

We know from history that when commercial banks establish overseas subsidiaries and branches, their customers in other sectors follow them and start to invest in those countries where their bankers develop banking network services for their customers.

As such patterns of investment are repeated, we can reasonably expect that the share of financial sector investment in MIGA's portfolio will decrease over time and the sector profile of MIGA's portfolio will become more balanced.

BY SECTOR — MIGA'S CLIENT BASE

The next question you may ask will be: "Who are your clients?" Please look at page 4 of the Profile (page 104 in Annexes). *Our client base by sector is composed of:*

Financial sector	39%
Mining	21%
Manufacturing	20%
Infrastructure	10%
Agribusiness	4%
Oil and gas	3%
Tourism	2%
Services	1%

MIGA is a young institution. Its sector profile is rapidly changing. At present (a) finance; (b) mining and (c) manufacturing are strong, but we are hopeful that we will have further diversification in our portfolio.

For example, MIGA's formative years coincided with the liberalization of the financial sector in a certain number of developing member countries, such as Argentina, Peru, Brazil, Pakistan and other emerging economies in Eastern Europe, Central Asia, etc.

BY COUNTRY — MIGA'S CLIENT BASE

How about the investor profile by nationality? Please look at the Profile, page 7 (Annexes, page 107). The answer is the USA, 47%; Canada, 5% (North America 52%); Europe, 42%; Japan, 5%¹; and other, 1%.

¹ Let me say just a word about Japan and other investor countries. Japan is also one of the largest investor countries. But there are differences of language and business culture which are not in favor of development of this complementarity relationship. In addition, investment decisions by Japanese firms are usually taken in Tokyo, which makes it natural to go to EID-MITI (Export-Import Insurance Department of Ministry of International Trade and Industry). Recently, one investor came to MIGA. In this case, the investment was to be made by the Japanese subsidiary in Singapore into the Indonesia telecommunications sector and they wanted MIGA's coverage. But finally they decided to invest from Tokyo and they went to EID-MITI. However, this anecdote encourages me to think that the process of an investment decision may be starting to change in Japan and that, in the future, more overseas Japanese subsidiaries may wish to come to MIGA. Let me say that, for FY96 projections, already the U.S. share is starting to decline gradually and we hope that the rise of South-South investment, etc. will gradually expand. Indeed, in the case of investors from Category II countries who do not possess their own investment risk insurance programs, MIGA's program is the only one available to them.

As the private sector develops in emerging economies and as business activities go beyond national borders, there are good reasons for investors to come to MIGA unless they are prepared to assume risks by themselves.

Overseas Chinese investors who used to be essentially self-insurers may have to change their own business culture in order to adapt to changes in political risk profiles in the process of their participation in the process of industrialization.

The large percentage of U.S. investors is explained as follows:

- (1) The U.S. is one of the largest investor countries.
- (2) U.S. business culture favors risk management.
- (3) Complementarity between the U.S. OPIC and MIGA is at work. Let me further explain this point.
 - (a) The U.S. Government has its own political message to send to other governments for various reasons. From time to time, the Government takes a hard posture towards other countries such as China, Peru, Pakistan, etc. The U.S. OPIC runs the national program, which has to stay consistent with the government's position. In this event, does an American corporation always respect the government's position? The private sector may have its own agenda. The Government knows it and so does OPIC. In addition, as far as the government's position is clarified, they don't mind sometimes if American firms come to MIGA.
 - (b) The U.S. OPIC has its own risk management policy and wants to adjust its portfolio in terms of country exposure, sector exposure, etc. Then, MIGA's presence is convenient for them as a joint risk taker. MIGA can step in as a coinsurer or reinsurer and, as a result, the desired investment takes place. That is what matters to developing nations.
 - (c) OPIC has its own eligibility policy under which foreign-owned U.S. corporations are not eligible for OPIC coverage. MIGA is there to complement the U.S. national program.

COMPLEMENTARITY WITH NATIONAL INSURERS

In this context, let me make it clear that *MIGA was created not to compete with national programs but to complement them.* (MIGA Convention Article 19). I explained so far how complementarity works between the U.S. OPIC and MIGA. But what I should like to tell you today is that we want to further expand this complementarity relationship with other national programs. We already have good relations with the Canadian EDC, the British ECGD, the French COFACE, the Japanese EID-MITI, etc. But we can *do more* in the future.

REGIONAL DISTRIBUTION OF MIGA'S GUARANTEES

The next question you may ask will be "Which region is benefiting from MIGA's Guarantee Services as the destination of FDI which MIGA promotes?" Please look at pages 5, 6 and 9 of the Profile (pages 105, 106 and 109 in Annexes.)

About 45% of MIGA's exposure exists in the Latin America and Caribbean region. Asia represents 26%; Europe and Central Asia, 22%; and Africa and the Middle East, 7%. This is the regional distribution of MIGA's portfolio in the amount of *maximum contingent liabilities*.

If it is looked at by the *number of contracts*, Africa and the Middle East are doing better. They represent 10% instead of 7% and the percentage of other regions is reduced. This means that the amount per project is smaller in this region than in the others. If looked at on the basis of preliminary applications, Africa and the Middle

East represent 17%; Europe and Central America, 31%; and Asia, 29%. This suggests that MIGA's portfolio is dynamically changing also with respect to regional distribution.

IS MIGA TOO SMALL?

Another question which I hear often is the following: "Isn't MIGA too small to accommodate the needs of investors?" This question is related to MIGA's project limit of \$50 million and country limit of \$175 million. This question is often raised by commercial bankers who are dealing with a loan project of a billion-dollar size. Of course, with the larger limit, MIGA will have less constraints. That's why we are going to make the case for a capital increase. However, even under the present constraints, MIGA can do a meaningful job. Small can be beautiful.

First, let me point out that MIGA was not created to cover loan risks, but to cover mainly equity-related risks.

EQUITY-RELATED INVESTMENT AND DEVELOPMENTAL IMPACT

Equity-related investment has definitely a larger developmental impact when compared to a commercial loan because the multiplier effect is larger.

Businesses established, or expanded, through equity-related investments mean a long-lasting multiplier effect on local economies through payment of annual salaries and procurement of goods and services from the local economy.

This is particularly important as compared to a billion-dollar commercial loan

which requires international bidding for procurement of goods and services which may be earned by bidders residing in industrialized nations leaving huge amounts of debts in the host country. I am not denouncing commercial loans. I fully recognize the necessity of commercial loans to carry out certain priority projects in developing economies, and they certainly carry a big developmental impact.

However, I am talking about the difference between commercial loans² and equity investments in terms of the degree of developmental impact.

RIGHT SIZING OF EQUITY INVESTMENTS

As far as equity-related investments are concerned, right sizing is in everyone's interest.

- (1) Investors themselves want it right sized, because they know it takes a long time for the equity investment to become profitable.
- (2) It should be right sized as conducive to the business scale and absorptive capacity of the local economy.

² Political risks involved in commercial loans can be taken care of by national programs which are established mainly to take care of each respective national interest.

Within the World Bank, loan guarantee can be taken care of by IBRD. But the role of the IBRD guarantee has been somewhat limited. So far, its guarantee program has focused on infrastructure-type projects and has not offered political risk coverage to other types of loan investments, which makes sense to me from a developmental impact point of view.

Infrastructure building was neglected during the decade of debt: namely the 1980s. In order to pave the development process in the next decade, infrastructure building is absolutely needed.

In this context, I should like to point out that also in MIGA, the demand for infrastructure is increasing. Opportunity-oriented private business increasingly finds business opportunities in the infrastructure sector, reflecting the trend of the world economy.

- (3) Right sizing is also in the interest of host countries that are afraid of the dominating presence of foreign capital in one sector or another.
- (4) Political risk insurers want right sizing because they don't want to assume one large risk in one project. They want to share the risks with co-insurers or reinsurers.

In addition, from MIGA's experience, the US\$50 million project limit did not pose a serious difficulty in accommodating clients' needs. When it did, it was relatively easy to find national insurers who would share the risks with MIGA.

In conclusion, *small can be beautiful as far as equity-related investments are concerned.*

MIGA SUPPLEMENTS IBRD AND IFC

But there are clear differences between the IBRD Guarantee and MIGA's insurance as follows:

- IBRD Guarantee projects can be public-sector projects or private-sector projects. (In both cases commercial loans may be involved.) If it is a private sector project, it must be a *project of high national priority* because the host government has to provide a *counter-guarantee* to IBRD.³

³ In the case of MIGA insurance, a counter-guarantee is not required.

The collateral requirement stems from banking prudence. A counter-guarantee by the host government is required by the Bank's Articles of Agreement and is given on the basis of an indemnity agreement with the IBRD as a form of collateral to the guarantee.

Prudent management of the insurance business is based on the risk assessment reflected in the difference of premium rates and the combination of portfolio management and reserves building.

- MIGA's project must be a *private sector project* which is *identified* by private investors, their own *feasibility study* is conducted and the *financing* of the project is arranged by *themselves*.

In other words, MIGA attends to *clients who are not attended to* by the IBRD, and MIGA participates in IBRD projects when its role in equity coverage is needed. In this sense, MIGA *supplements* the role of IBRD as a principal financier of public sector projects and, to a lesser extent, guarantor of commercial loans to infrastructure projects. The same supplemental relationship can be explained between IFC and MIGA, but I will not go into detail today.

PROJECT LIMIT AND COUNTRY LIMIT

As you may have understood already from my earlier explanations, MIGA will stay for some more time with the present project limit of US\$50 million for two reasons:

- (a) risk management
- (b) the lack of compelling reasons to increase

On the other hand, MIGA is willing to increase a *country limit* as our total exposure increases. We have obtained concurrence by the Board that this can go up to 15% of total exposure, but we also have an understanding by the Board that management can set the country limit lower than that from a prudent viewpoint.

Currently, management is containing the country exposure within 10% of total exposure (page 15 of Annual Report). This is also justified from the viewpoint of

the equitable allocation of guarantee services by host countries.

Nevertheless, there are three countries which are approaching the present country limit of US\$175 million (Pakistan, Argentina and Peru). Management will inform the Board, in due course, of an increase in the country limit from US\$175 million to US\$225 million (if the 15% rule is applied, the ceiling would be US\$300 million).

CLIENT ORIENTATION

The last question to be asked is *whether MIGA is liked by its customers*. In other words, MIGA's *client orientation* and professional excellence will have to be examined. *First*, I am pleased to tell you that significant improvements have been made in terms of the user-friendliness of MIGA's products, both in Guarantees and in Technical Assistance activities.

With regard to Guarantee products, the "General Conditions" of Guarantee Contracts have been amended frequently to tailor our products to fit the client's needs better, and the "Operational Regulations" have been amended to streamline our procedures.

Concerning Technical Assistance activities, Investment Promotion conferences are specifically tailored to meet clients' needs and seek clear niches where MIGA, as an international organization, has evident advantage over private consulting firms. Multi-country, single-sector oriented promotions are one such example.

In addition, IPAnet services and CD-ROMs are being developed on the basis of the careful exchange of views with both private and public sector customers.

Second, I am also pleased to inform you that MIGA's speed of response and the response to changing needs have improved significantly since early 1994.

As to Guarantees, a simplified Board procedure was introduced in February 1994. As to Technical Assistance activities, the shortage of both financial and human resources forced MIGA to withdraw from Policy Advisory Services, which was reborn as Investment Marketing Services, applying strict criteria of selectivity and trying to avoid duplication of services not only with other international organizations but also with various private consulting firms. This compelled MIGA to be innovative in assessing clients' needs and in developing new products.

Third, MIGA's external relations function is primarily focused on client interface. Both the Guarantees and Investment Marketing Services Departments provide regular feedback to clients on their respective activities and conduct surveys on the quality of MIGA's products.

PROBLEM-SOLVING CAPACITY

Last, MIGA's demonstrated problem-solving capacity is adding additional value to MIGA's services. Recently, two clients of MIGA Guarantees faced problems vis-à-vis two host governments. In one case, it was clear that the client did not meet the requirement set forth in the concession agreement with the government. Therefore, it did not constitute a claim case for MIGA. But MIGA's lawyers helped to resolve the disputes, and now a new set of agreements has been worked out by the two parties. In another case, it went as close as the claim filing by the client. (The client had two options: withdraw with pay-

ment of loss or stay in the country with mutually agreeable conditions.) However, the host government has responded to MIGA's General Counsel's requests through MIGA's Executive Director and through the embassy located in Washington, D.C. Finally the client agreed to stay and MIGA avoided a case of claim. This is a typical case in which the quality of MIGA's risk coverage was tested, and I am happy that MIGA has proved the quality of its products, MIGA's legal expertise in investment-related issues *is also at work* in Africa, in Latin America and in South Asia, trying to de-limit national border in terms of excavation of oil reserves in the continental shelf along the coast. Once agreements are reached, those investors interested in such oil reserves are reasonably expected to come to MIGA's Guarantee in the future.

CONCLUSION

So far, I explained (1) what the developmental impact of MIGA's projects is and (2) how MIGA complements national programs and supplements IBRD and IFC. I also explained about (3) MIGA's portfolio profile and its dynamism. I explained (4) how MIGA deals with its customers and (5) serves its customers with unique problem-solving capacity.

When MIGA requests a capital increase, this will show how unduly conservative or pessimistic MIGA's founders were with such small capitalization. The final verdict will be given by its shareholders, but they will need testimony from MIGA's clients or other knowledgeable people about the rationale for such a capital increase.

MIGA's *professional excellence and client-orientation* should be judged by its clients. MIGA's *developmental impact and usefulness to the private sector investor* should be judged by both the host country and the client investor.

I hope my presentation today helps you in forming your opinion about MIGA.

SPEECH FOR EXPORT CREDIT AGENCIES ON “BUSINESS RELATIONSHIP BETWEEN THE IBRD, MIGA AND EXPORT CREDIT AGENCIES”

WASHINGTON, D.C.
September, 1995

This speech was given at the meeting of export credit agencies which was hosted by the World Bank Vice President in charge of co-financing in September 1995. Many Export Credit Agencies provide not only export credit, but also export credit insurance and/or investment guarantee services. Therefore, export credit agencies emerge as co-financiers of World Bank projects and also coinsurers for MIGA, with respect to long-term investment risk insurance.

In this speech, I tried to explain the location of MIGA projects, client base and sector profile, and finally, tried to convince them in the concluding part of the speech that the nature of the World Bank guarantee project and MIGA guarantee project is so different that there is virtually no competition between the World Bank Guarantee and MIGA Guarantee. This means that export credit agencies can work with both the World Bank co-financing or guarantee and MIGA guarantee without having serious competition.

I carefully avoided touching on the delicate issues that existed between the World Bank and Export Credit Agencies about the preferred status of the World Bank loan and negative pledge issues which have been resolved (or are being resolved) between the Bank and the Export Credit Agencies. These issues are not relevant for MIGA business. Export Credit Agencies appear as coinsurers or reinsurers of MIGA or the reinsuree by MIGA and there can be only a harmonious cooperative relationship between the two.

BUSINESS RELATIONSHIP BETWEEN THE IBRD, MIGA AND EXPORT CREDIT AGENCIES



*Remarks by Mr. Akira Iida
Executive Vice President*

MULTILATERAL INVESTMENT GUARANTEE AGENCY

ECA Export Credit Agencies Lunch

September 12, 1995

Ladies and gentlemen: It is my pleasure and honor to have this opportunity to spend this time with you and explain MIGA's viewpoint regarding business which we may share in the future. In order to facilitate our communication, I asked Mr. Banerji to distribute MIGA fact sheets to illustrate MIGA's past achievements.

MIGA was created in 1988 and is seven years old at present. Its member countries have increased from 48 original members to 128 members at present, of whom 109 are Category II countries, meaning developing member countries and economies in transition. MIGA promotes foreign direct investment to Category II countries from Category I countries (namely 19 industrialized countries) and from other member countries. Its core business is noncommercial risk insurance which will catalyze foreign direct investment, but MIGA is also rendering investment marketing services to Category II countries that want to market their own investment opportunities to potential investors abroad.

I. LOCATION OF MIGA PROJECTS

In the past six years, MIGA has signed 155 contracts covering 36 countries. Let me first invite you to look at the chart circulated¹. This provides the regional distribution of our portfolio by maximum contingent liabilities. Latin America and the Caribbean occupy 45%; Asia, 26%; Europe and Central Asia, 20%; Africa and the Middle East, 7%. However, looking at these figures we should take into account the differences in the size of the economy. If you look at the regional distribution by number of contracts in the circulated chart¹, Africa and the Middle East occupy 10% instead of 7%; Latin America and the Caribbean occupy 41% instead of 45%, and even within Asia the percentage of China will show a big difference because a unit project in China costs a lot less than the unit cost of projects in other Asian tigers. In addition, if you consider the regional distribution by the number of preliminary applications, you

¹ The chart circulated in the meeting is omitted here.

have quite a different story there. I think on the basis of this background the regional distribution of MIGA's portfolio is dynamically changing over time.

2. MIGA'S CLIENT BASE

Next, I would like to draw your attention to the chart circulated² which shows the regional distribution of our client investors. You will be surprised to find that U.S. investors occupy almost 50% of our client base. First, this is based on the fact that the U.S. is one of the largest investor countries. Second, U.S. business culture favors purchasing political risk insurance policies and third, the U.S. national program is not available for those foreign-owned U.S. corporations. As an international organization, we should like to diversify our client base to expand to more clients in other regions and, as time passes, I am pretty sure that the U.S. share will diminish. MIGA did a remarkable job over the past three years in that it has delivered so many projects in so many countries over such a short period of time. It was beyond the expectation of MIGA's founders, who undercapitalized MIGA and did not see a clear perspective of how the world investment environment will favor the political risk insurance business. As you know, there is abundant capital available in the private capital market and business opportunities are also abundant in the developing world, not the least in the area of infrastructure. Nevertheless, we have political instability, for example, arising after the fall of the Berlin Wall; we are confronted with so many regional conflicts, diminishing governability in certain countries and diminished strength in the international framework. Therefore, the rise in the demand for political risk insurance.

² The chart and papers circulated in the meeting are omitted here.

3. SECTOR PROFILE OF MIGA PROJECTS

Now let me turn to the contents of our portfolio. Here you have the list of projects which we have delivered in the past six years in the circulated paper². (MIGA's first year cannot be counted as an operational year, because MIGA had only five officers and was very busy recruiting human resources.)

Before going into this list of projects, let us go back to the chart and explain the salient points.

- (i) Sectoral Distribution³.
- (ii) Infrastructure (a rapidly-rising sector)³.

MIGA is a demand-driven, opportunities-oriented institution. The sectoral distribution of the portfolio may be affected by a change in demand over time. We are, in principle, very flexible in this respect, except that we will exercise, from time to time, self-restraint from the portfolio risk management point of view.

4. CONCLUSION

So far I have explained to you the location, client base and sector profile of MIGA projects. MIGA's projects are identified by a private business. A feasibility study, whether financial or technical, is conducted by the private business. Financial arrangements are made by the private business with a commercial bank or Ex-Im Bank or even with the International Financial Institutions (IFIs). Only when they are concerned with the political risk insurance involved in a project do they come to us or

³ Explanation omitted.

to the national insurance agency to purchase coverage on it. It is distinctly different from the big national projects which our elder brother, the World Bank, is dealing with.

For private business, what matters are speed, quality and price. In this context, MIGA has clearly met the market test and the Board has been very pleased to allow our business capacity increase so far. We may be confronted, however, with the challenge of another demand for capacity increase in three to four years, but I am convinced that this will be overcome as long as we continue to be a cost-efficient and client-oriented institution. As you and I know, we share a lot of clients among us. From the list of projects which I presented, you know who MIGA's clients are. Normally, they are clients for your export credit

and, in some cases, for your credit insurance business. Whenever it is appropriate, we would welcome your referring your clients to us and, wherever possible, we will be glad to work with you in the sense that you offer advice, credits and/or insurance and we offer equity-related risk coverage in the same projects you are working on or, in some cases, work with some of you in coinsurance and/or reinsurance. (When you are an insurer you will understand immediately. It is good to diversify risk rather than to assume one-shot business risks in a big project.) I hope the time I spent with you has been useful to you and, if you are interested in further technical detail, we will be very pleased to respond to your questions.

Thank you.

“WORLD BANK GUARANTEE AND MIGA GUARANTEE”

1994 MIGA Luncheon Speech

CASA GRANDE, MADRID, SPAIN

The speech was delivered immediately after the World Bank Executive Board reached agreement on the mainstreaming of the World Bank guarantee. Therefore, there was a lot of confusion and concern among national risk insurers regarding the possible competition and conflict with their business. There was a clear need for me to explain what is meant by the mainstreaming of the World Bank guarantee and how a World Bank guarantee differs from the MIGA guarantee or the risk guarantee business run by national agencies. In the concluding part, I suggested that both MIGA and national agencies would conduct our business on principles of client orientation, cost-efficiency and financial integrity and listen to what the customer says. I said that there was no good basis for being afraid of the entry of the World Bank in the guarantee business, and we should be prepared to provide the World Bank with any assistance needed for development purposes.

Two years later, the new president of the World Bank, Mr. Wolfensohn, called for an action plan of the World Bank guarantee and looked into the possibility of a new facility which would respond to current private sector needs more efficiently. This quest is still underway, and what I suggested in this speech about the relationship between the World Bank, MIGA and national agencies has actually proved to be accurate.

WORLD BANK GUARANTEE AND MIGA GUARANTEE



*Speech by Mr. Akira Iida
Executive Vice President*

MULTILATERAL INVESTMENT GUARANTEE AGENCY

*at MIGA Luncheon held in
Casa Grande, Madrid*

October 6, 1994

Ladies and gentlemen: At the two previous Annual Meeting luncheons, I spoke only about MIGA's business, but this year I should like to talk about the World Bank's guarantee and MIGA's guarantee, so that you can clearly understand the differences between the two:

I. This need arises from the fact that the World Bank's Executive Board recently reached a policy decision that the Bank will be utilizing its guarantee function more frequently, especially in relation to infrastructure-type projects. Many people are confused about the reason for this and wonder what the relationship will be between the Bank's and MIGA's guarantees. In order to give you a clear-cut understanding, I should like to begin with an historical review.

A. The World Bank was created in 1944 and IFC in 1956. At that time, it was still rare for a business to make an overseas investment or to do business in another country, except in a metropolitan colony or a former colony. The first wave of overseas direct investment by private business after World War II started during the decade of the 1950s with the multinationalization of U.S. business. In order to sup-

port these operations, the U.S. National Program offered coverage against the political risks of U.S. investments.¹ As a matter of national investment risk insurance schemes, the British system may have been created earlier than that, even before the Second World War, but it was not so active in terms of the underwriting volume. Overwhelmingly, national agencies' insurance programs were dominated by export credit insurance and this feature still remains applicable today in many countries. Against this background, when the World Bank and IFC were created, no provision was made in the World Bank *charter* regarding the guarantees function *on equity investment* even though the Bank was given the mandate to make *loan guarantees* to public and/or private lenders. Even in the IFC's Articles of Agreement, in the original text, only *portfolio investment* was allowed and IFC's participation in direct *equity investment* was expressly prohibited. In 1961, IFC's Articles of Agreement were amended

¹ The U.S. National Program for long-term investment credit and related risk insurance started with the Marshall Plan in 1948 and was administered by various government agencies including USAID until the function was integrated into that of USOPIC, which was established as an independent agency in 1969 and began operations in 1971.

so as to enable IFC to make *equity investments*. As to the guarantee function of IFC, there was no provision in the Articles of Agreement which prevented IFC from offering risk coverage on equity investment by public or private businesses, but IFC did not use its guarantee function as a mainstream instrument to promote equity investments. All these pieces of information provide the evidence of the fact that how poor was the recognition of the need for an insurance scheme as an instrument to catalyze the flow of equity investments.

B. In early 1960s, the International Chamber of Commerce urged the World Bank to establish the so-called International Investment Insurance Agency (IIIA), and the Executive Directors of the World Bank convened as a Committee of the Whole to discuss the pros and cons of creating such an agency. The pros were as follows:

(a) In terms of developmental impact, foreign direct investment in the form of private business establishment had an economic impact far greater than a one-shot lending operation. Let me elaborate on this:

1. In the early 1960s, foreign currency was scarce. Therefore, the roles of the World Bank and IFC gave much importance to the provision of foreign exchange needed for developmental purposes. There was a strong reluctance to local currency lending which was needed for the implementation of any project which had a certain amount of local currency costs. The majority of the Bank's Executive Directors, at that time, considered that such local cost components should be financed through the national savings of the borrowing country.

2. Foreign direct investment, on the other hand, will not only replace national borrowing, but will also increase employment. Through salary payments and procurement of goods and services within the domestic economy, that business can exercise a strong economic impact on the host country. Thus, the aggregate amount of economic impact of the initial equity investment is incalculable. In addition, FDI will contribute to the development of the private sector and economic growth in general, through the increase of players in the marketplace, through the generation of tax revenue and foreign exchange earnings and through the introduction of new technology and know-how into the domestic economy. They are all vital factors for development.

(b) On the other hand, there were various arguments against such a proposal. The reasons are as follows:

In the early 1960s, when many metropolitan colonies were becoming independent, an actual expropriation of foreign assets was taking place in many countries. Many developing nations, particularly in Latin America, considered that the creation of such an international investment insurance agency would infringe upon a nation's sovereignty. Therefore, the Committee of the Whole, which was convened several times during the 1960s and early 1970s, could not reach agreement. It was only in the aftermath of the debt crises which started with Mexico in 1982 that developing nations realized how they had been overborrowing beyond their capacity to repay, and how debt management had become difficult.

When Mr. Clausen, the then-President of the World Bank, took the initiative in the early 1980s to reconvene the Committee of the Whole to discuss the matter again, finally there emerged an agreement to create MIGA. The MIGA convention was opened for signature in 1985, and MIGA came into being in April 1988.

C. I was wondering myself why MIGA was not set up as a Vice Presidency of the Bank or attached to IFC. My answer is this:

1. By that time, the role of international organizations had become the subject of political debate and, in particular, in the U.S. Congress, it was likely that any amendment proposed to the World Bank's or IFC's Articles of Agreement might lead to a lot of additional requests for amendments by the U.S. Congress and other sources.
2. Considering this and other factors, MIGA was created as an independent institution like IFC within the World Bank Group. As you know, MIGA has the single purpose of foreign direct investment promotion but the establishment of such a single-purpose institution was necessary to eliminate the blindspot within the World Bank Group, namely the defacto lack of a guarantee function to catalyze equity-related investments needed for private business establishments.

D. The Bank's clients are primarily government agencies. The World Bank can lend money to the private business with a government guarantee, it can guarantee private loans only when it receives a government counter-guarantee. By contrast, the types of operations to which MIGA extends its guarantees are mostly private business establishments in the form of equity

investment, branch establishments or shareholder loans for business expansion. In addition, in the case of MIGA's guarantees, a host country counter-guarantee is not required.

E. So far, I explained the reasons why MIGA was established and its historical background. I also explained the functional differences between the Bank's and MIGA's guarantees. I did this only for the purpose of explaining that there is no conflict between the World Bank's guarantee and MIGA's. Rather they can complement each other. Let me elaborate further:

1. Quite recently, the World Bank's Executive Directors approved a guarantee for a power project in China. The Bank decided to offer political risk coverage to the commercial bank lending for that project. In such commercial bank lending which has no relationship to equity holding by private investors, MIGA cannot offer its coverage. This is clearly the territory of the World Bank.
2. This kind of capital import in the form of commercial bank lending is needed to finance the priority project for the development of infrastructure in China. When domestic savings are scarce, there is a good rationale for Bank guarantees to catalyze capital import needed for such specific purposes. In recent years, in many developing countries, there has been a strong rise in demand for infrastructure-type projects involving power, transportation, communications and water distribution, etc., partly to make up for the lack of maintenance, during the process of recovery from debt crises throughout the past decade, and partly to address the needs of future economic growth.

3. In the event that the Bank's guarantee involves private investors' equity investments to establish a company which will manage these infrastructure-type projects, MIGA's guarantee is needed. Therefore, there will be good opportunities for the Bank and MIGA to collaborate.

F. The tendency described in paragraph E(2) above was also observed in the case of MIGA's guarantee applications: As of July 31, 1994, MIGA received about 400 preliminary applications for private investments in such infrastructure-type projects, spread over more than 50 countries. Private sectors are increasingly expanding their participation in such areas which, in previous decades, were predominantly public-sector businesses.

II. Now let me turn to another subject. Some of the delegates from national insurance agencies may still wonder what the relationship will be between the Bank's guarantee and their own national agency's guarantee.

A. They may say, "Okay, I understand that there is no conflict between the Bank and MIGA. But my institution insures commercial bank lending, whether it is related to shareholding or not. I am not sure whether or not the Bank's operation has a conflict with ours. I am concerned that the Bank's pricing policy may disturb the practice of our existing guarantee market." To these concerns, I may answer this way. "Yes, there may be some overlapping of function on the surface, but national insurance agencies should not be concerned about the entrance of the Bank into the guarantee business." Let me elaborate on this point as follows:

1. Suppose commercial lenders ask the borrowing country's government to give assurance to the lenders that the government will pay if a loss occurs

resulting from political risks such as breach of contract by the government or imposition of currency transfer restrictions, etc. The government may accept or reject such a request. If it rejects this, lending may not occur. If it accepts the request, it has to be prepared for future claims. Political risks come into reality when there is a change of government from one extreme position to another, or as a result of macroeconomic mismanagement, political unrest, etc. If a government adopts a policy that they will pay, should there be a legitimate claim, then they should have a reserve for such future claims.

2. It is very unlikely that this will happen, but *let us assume*, for the moment, that the government borrows some money from the World Bank (although the Bank would not lend for this purpose²) and puts it into reserves to be prepared for future claims. This is extremely inefficient economically. First, the government has to pay interest rates to the Bank on that money borrowed until such time an actual claim is filed, knowing that this claim may not happen. The World Bank has to borrow from the capital market in order to lend to this government and also has to pay interest on the borrowing and to charge an appropriate fee on the lending.

3. In order to protect the commercial lender in this case, it would be much more economical both for the Bank and the government to agree upon a scheme whereby the Bank guarantees the commercial lender and concludes an indemnity agreement with

² In case of an IDA project, such lending is actually planned except that the money will be kept with IDA until needed.

the government. When a claim takes place, the Bank will pay the commercial lender and then the Bank will ask the government to repay the same amount to the Bank on the basis of such an indemnity agreement. In the event that the government is unable to pay off the amount of the guarantee obligated to the Bank at once, the Bank will be a creditor of that amount vis-à-vis the government. So this is what is implied by the Bank's guarantee on commercial lending and the counter-guarantee by the host government. This is a much more economical way for both the Bank and the host government to realize the same protection for commercial lending which is needed to finance important development projects. So I would say this is not insurance business at all. This may be seen as a derivative of the Bank's lending operations.

4. If you look at the question this way, the Bank's guarantee and the ones offered by MIGA and your national agencies are totally different in nature. The former is an extension of loan operations, whereas the latter is insurance which is not based at all on the counter-guarantee, but on premiums paid by the clients.

B. You may still voice your concern that clients will be rushing to the Bank if the premium is far below the market rate. However, please do not forget the fact that the host government has to provide

counter-guarantees. These days, the government is becoming more and more conscious of debt management and contingency liability management. Therefore, the government will be very selective about the project upon which it will agree to offer a counter-guarantee. It should be on the basis of the priority needs of that country. So, even if commercial banks want to obtain the Bank's guarantee, most of them may be turned down by recipient governments. Only commercial lending which meets a country's strategic priority needs will be honored.

C. Let me conclude with the issues of concern to MIGA and national agencies as follows. The most important thing for us is that we conduct our business on the principles of client orientation, cost efficiency and financial integrity. If our customers abandon us and rush to the Bank, we should not blame the Bank but ourselves. However, because we are so client-oriented, cost-efficient and results-oriented, I do not think that we will lose our clients. Let's continue our business with this common understanding and let us be prepared to help the World Bank if our assistance is needed for the pursuit of the world's development purposes.

Thank you.

MADRID SPEECH ON
“LAUNCHING OF PROTOTYPE —
IPAnet”

Global IPA Network Workshop
1994 IMF-World Bank Group Annual Meetings

October 1994

This speech was delivered in Madrid at one of the workshops organized during the 1994 World Bank Annual Meetings. This event was co-sponsored by the Ministry of Commerce and Tourism of Spain. Participants at the workshops were leaders of national IPAs, private sector businesspeople and representatives of international agencies such as UNIDO and UNCTAD, which later on came into the business of investment promotion through IPAs. In a sense, MIGA has triggered this fashion of UN agencies to start working with national IPAs. I am proud of this fact, because MIGA clearly has set the standard for this to become a new trend in investment promotion business. At the meeting, the prototype IPAnet facilities were demonstrated. In autumn 1993, MIGA had launched the concept of information exchange on trade and investment through the Internet. In the autumn of 1994, after one year of consultations with the private sector business and technical front-runners of the Internet business, MIGA developed a prototype of IPAnet and this is the reason why the workshop was convened and the speech delivered.

GLOBAL IPAnet WORKSHOP



*Welcome Speech by Mr. Akira Iida
Executive Vice President*

MULTILATERAL INVESTMENT GUARANTEE AGENCY

MADRID

October 1, 1994

Good morning, ladies and gentlemen: I am pleased to welcome you to MIGA's Global Investment Promotion Agency Network Workshop.

Over the past two days, we have listened to, and discussed, presentations which were centered around the FDI strategies of European companies. Specialists from various service sectors — ranging from telecommunications to financial services and tourism — have given us their views on the developments going on in their businesses and how these developments may affect investments in developing countries.

This third day of our meetings here in Madrid will be of a different nature. We will change the focus of our attention and turn to a more intimate discussion of issues directly related to the daily bread, I mean the daily work of investment promotion agencies.

The IPA Network Workshop today will provide you with an open forum for the exchange of views and opinions on modern investment promotion techniques.

1. Some of you may ask what is the IPA Network? What does it mean? Well, let me clarify this. One year ago, on the occasion of the last Annual Meetings of the World Bank Group, in Washington, D.C., MIGA disclosed that it planned to create an *IPA network with or without an electronic net-*

work. The basic idea was to create a loose version of an association of national IPAs in order to facilitate the "dissemination of information on investment opportunities," which is clearly mandated by Article 23 of the MIGA Convention.

The "electronic network" was envisioned to become the core instrument of this IPA association for marketing their own countries. However, considering MIGA's mandate, it was inappropriate to exclude some member countries from our activities just because they are technologically not advanced enough to become members of the electronic network. Therefore, MIGA said the IPA Network, which is the association of IPAs, will be *an IPA forum* to enhance the capacity of "marketing a country" among member IPAs, and MIGA will serve as the Secretariat for such a forum.

MIGA already possessed, at that time, software which is the management information system (MiS) software jointly developed by MIGA and IFC, and declared that MIGA would further develop other modalities for helping IPAs.

One example is the African Mining Sector Conference held in June this year in Denver, Colorado. Eighteen African countries were invited there to meet with major investors in the mining sector whether they are willing to join the electronic network or not. MIGA acted as a

catalyzer for both our African member countries and mining companies to get together and find future partners of their own.

On that occasion, MIGA introduced its prototype CD-ROM initiative as a possible instrument for marketing in the African mining sector. This morning, you will observe a brief demonstration of this prototype product. Although we have not yet developed a CD-ROM for the tourism sector, a similar sector-oriented conference was held with great success in Fortaleza, Brazil, in October last year.

So far, I was explaining that the IPA Network is a forum of national IPAs, in general, with or without the electronic network, and how it is functioning already.

2. *Now let me comment on the IPAnet, the electronic network proposed by MIGA.* When MIGA introduced the concept, it has incurred a strong interest among business associations residing in industrialized countries and semi-public agencies run by private sector people but trusted with public funds to promote overseas private investments.

They said unanimously that if such an electronic network was created, it might save them costs for travel, need for repeated updating of basic data and, therefore, the cost of employing consultants for such purposes.

Fortunately, these days, the Internet is ready to serve as the so-called "Information Highway," through which we can send and receive information most efficiently and economically.

If our work had started two years earlier, it may have been too early. But if we started our work two years later, it might be too late. We are right on time to design and launch such an electronic network.

After one year's serious market research and preparation, MIGA will launch today a prototype system of the IPAnet, which is expected to become a core instrument of a worldwide IPA association or IPA forum for marketing their own country.

This IPAnet will be an electronic network to which both national IPAs of developing countries and business associations or individual investors of investor countries are invited. The IPAnet will serve both ways for sending out information and receiving information.

3. This morning, *we will demonstrate a prototype example* of the system in order to give you a clear image as to how it will function.

The IPAnet will allow you access to the information available in the marketplace, but *the last and most important question for us before launching it officially is to know* how to design the "communication facilities" which should be utilized among IPAnet members for the very purpose of "dissemination of information on investment opportunities."

Today, in the workshop, we would like to learn from you what you think about these initiatives.

We will listen to you carefully, both from national IPAs and from investors, regarding the practical needs and suggestions.

In one year, we will accomplish our final design and will make an official launch of the IPAnet. Until that time, this IPAnet will be tested among founding members and interested parties in a pre-launch stage.

4. Before I conclude, let me explain to you an important change in our technical assistance activities. Our technical assistance arm was formerly called Policy and Advi-

sory Services (PAS). But in July it was re-named Investment Marketing Services (IMS).

As the name shows, MIGA has withdrawn from the policy advisory function and decided to concentrate its technical assistance effort in investment marketing services, which means that it will ever increase our tie with national IPAs. We have decided to withdraw from FIAS and let it become a joint venture of the IFC and the Bank, since we feel these lending institutions are better suited to perform policy advisory functions.

So, MIGA's technical assistance services are provided mainly through its Investment Marketing Services Department. IMS is helping developing member countries and transitional economies to meet the challenge of increased competition for for-

eign direct investment. In today's world economy with its global markets and internationally integrated production structures, it is no longer sufficient to offer a stable investment climate and interesting investment opportunities for foreign investors. To successfully attract FDI, countries must, more and more, be able to effectively market themselves to investors.

Finally, I would like to invite you to actively participate in the discussions taking place today. As I mentioned, your feedback is important to us. We have to understand what your most urgent needs are in order to focus our activities on these needs. And we have to understand what you expect from us in order to use our limited resources to provide you with as many products as possible of a standard as high as possible.

**“DENVER SPEECH ON AFRICAN MINING
INVESTMENT CONFERENCE”**

*First Mining Conference
for Africa*

DENVER, COLORADO, USA
June 1994

In June 1994, MIGA convened the first African mining investment conference in Denver, Colorado. Prior to this, MIGA had completely withdrawn from policy advisory services and remodeled its technical assistance activities in order to sharpen the difference with other agencies. Policy advisory services are best delivered by institutions like the World Bank and the IFC, that have competitive edge in this area. MIGA has also withdrawn from individual country promotion conference activities, because we believe that this can be left to private consultants. Nevertheless, we believe that, given its nature as an international organization, MIGA has an important role to host multi-country promotion events for somewhat neglected sectors. Mining is not a declining industry worldwide, but in Africa, production and investment have lagged behind that of other regions. Mining development in the region has been constrained by insufficient exploration and investment. The conference provided an opportunity for African mining authorities to meet with representatives of major mining industries of the North American continent as well as those of Europe and Japan. While, in the main conference room, explanations were presented by African authorities regarding recent policy changes or changes in regulatory frameworks, ideas regarding exploratory projects or World Bank officials' explanation on macroeconomic or restructuring, IFC presentations on financing and risk-mitigation measures, there were special booths for each African participant to exhibit mineral samples and discuss business with potential investors. MIGA designed the conferences and managed the implementation of the whole process of building contacts with participants, conducting the proceedings of the conferences, organizing logistics and offering follow-up services.

This initiative was very successful both in substance and in financing of events and its was continued annually after Denver, in Toronto, Montreal and this year it is coming back to Denver. As a follow-up to this conference, all information provided by participants was gathered and edited into an African Mining CD-ROM and also it provided a valuable database which is contained in *IPAnet*. Updating of those databases is done by African authorities regularly in *IPAnet*. After this speech, MIGA has clearly set a standard about sector-wide multi-country investment promotion conference planning, execution, and follow-up. This model was replicated in mining conferences in the southern republics of the Former Soviet Union and for tourism in Latin America and the Caribbean, Asia and the Middle East.

DENVER SPEECH ON AFRICAN MINING INVESTMENT CONFERENCE



Remarks by Mr. Akira Iida
Executive Vice President

MULTILATERAL INVESTMENT GUARANTEE AGENCY
African Mining Investment Conference

DENVER, COLORADO
June 7, 1994

Excellencies, distinguished guests, ladies and gentlemen: Let me welcome all of you to the beautiful city of Denver and to the African Mining Investment Conference.

This is my first visit to Denver. When I told my son in Tokyo that I was going to Denver, Colorado, he didn't know the name. However, when I told him it was the city of Buffalo Bill Cody, Bat Masterson and Calamity Jane, he immediately understood. American films are everywhere. I'm sure you will enjoy your stay in this city, which can claim to be the center of the American mining industry.

As Dr. Kwaku explained, this conference was planned and prepared by MIGA's staff and came into being with the strong support and cooperation of governments, IPA heads and corporate sponsors. Therefore, it will be in order to pay tribute and express my heartfelt thanks to them.

This morning, I would like to address the issue not of mining investment *per se*, but of mining investment promotion in Africa.

To begin, let me mention an excellent technical paper issued by the World

Bank Mining Unit in the Industry and Energy Division entitled "*Strategy for African Mining*." This paper was issued in 1992 but its findings are still valid. I note that a summary update is less than a week old!

Mr. John Strongmann, the author of this technical report, is scheduled to address issues raised in this report before this morning's coffee break. However, let me refer to the salient points of the report in order to put the timing of this conference into context. The document argues that, among other developmental benefits, mining in the Sub-Saharan Africa region provides about one-third of non-oil exports and one-fifth of the total exports for the region as a whole.

Despite this important contribution made by the mining sector, growth in African mining production has lagged behind that of other regions. Mining development in the region has been constrained by insufficient mineral exploration and investment.

The Strongmann report states further that mining is not a declining industry. Rather, demand projections indicate that future consumption growth rates of

most major metals and minerals will continue to be positive and will equal or exceed the growth rates of the past two decades. In addition, it notes that mining investments are being made successfully elsewhere in the world. Africa, however, has failed to mobilize the necessary risk capital and development funds to match that progress.

This is a major justification for such an investment promotion conference on the mining sector in Africa as MIGA has begun today.

Throughout this conference, MIGA, a member of the World Bank Group wishes to help African members in their efforts to market the mining potentials of their own countries to private mining companies. These mining companies invited here are well known and conduct worldwide activities. We currently have 30 African countries as full MIGA members; 18 of these countries are represented in this conference. Three more countries sent observers. I am particularly pleased also to announce on this occasion that the Republic of South Africa became a full MIGA member as of March 22 of this year.

Throughout this conference, we hope our African participants will talk about their mining policies and regulatory framework, and *market their countries* to potential investors. For that purpose, we have prepared various booths for African countries and potential investors to facilitate their direct one-on-one contacts with their partners in the future.

We also hope that, throughout this conference, African countries will learn from each other, sharing experiences and future plans to bring about improvements in mining sector investment in the region. Of course, promotional activities such as this conference have their own limitations.

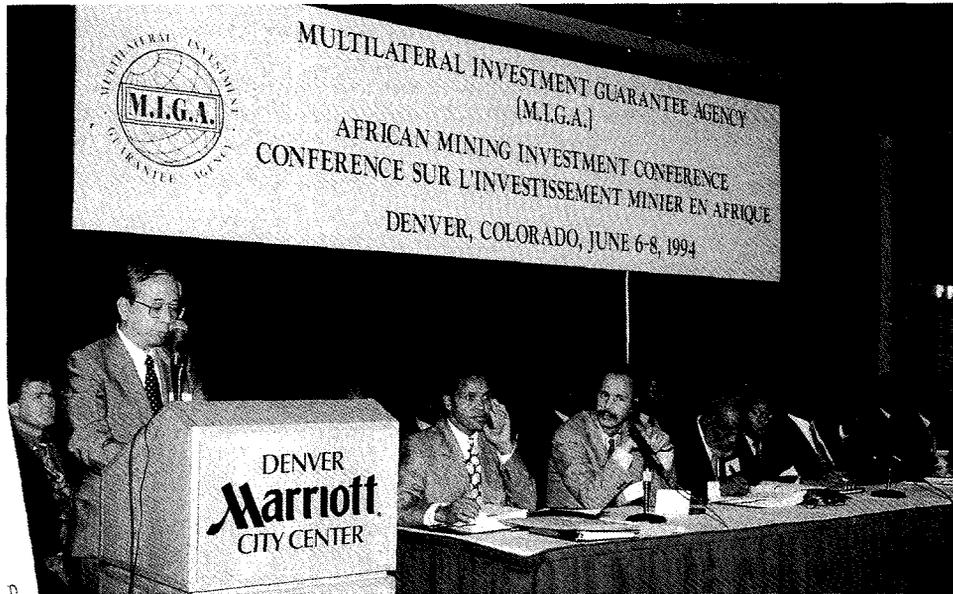
We cannot expect a country to attract enough investment without having a suitable regulatory environment, which another speaker is expected to address later.

There are some challenges ahead of us in terms of investment promotion. First, as I said earlier, there is a good rationale for an international organization to plan and implement such a conference, particularly for Africa. However, I have to wonder what will be the value-added contribution of MIGA in organizing these events. Some would argue that a similar meeting can be planned and implemented by a private consulting firm. Why do we have to do it, consuming precious staff time and administrative expenses? There should be *appropriate justification* for an international organization with respect to the value-added involved in its activities in comparison to the private sector.

Secondly, it is also a *political reality* that there are some groups who contend that support for mining investment in Africa should be stopped. They may be extreme environmentalists or those who believe that industrialized countries are just exploiting Africa's mining resources. Here they are referring to the need for environmentally sound project preparation and real developmental contributions to the African economy through increases in processing metals in order to bring more added value in the African region. International organizations such as MIGA should be mindful of these arguments and should promote only sound investments in the African mining sector.

Again, I would like to express my thanks to those who have collaborated with MIGA in organizing this event.

I welcome hearing from you — both countries and investors — on how you feel about MIGA's role. Any suggestions regard-



MIGA's Executive Vice President delivers the keynote address at MIGA's African Mining Investment Conference held in Denver, Colorado

ing how we can bring about greater value-added to these kinds of promotional activities are also welcome. For this purpose, I hope you all will find the time to complete the Conference Evaluation Questionnaire and Follow-up Survey which will be distributed to you later. This will make it possible for us to continue to provide you (both investors and MIGA members) with more useful services.

Thank you.

**DUBAI SPEECH ON
"MARKETING A COUNTRY"**

DUBAI, UNITED ARAB EMIRATES
November 1993

This speech was delivered in Dubai at an executive workshop on country investment promotion in the Arab countries, co-hosted by UNIDO and the government of the United Arab Emirates. In this speech, I stressed the importance of the concept of "marketing a country" and the valuable role of national IPAs. It should be remembered that the generic term investment promotion agency (IPA) was first used in MIGA and is now widely recognized by professionals and IPAs are accepted around the world as an agent of development. In developing the concepts in that speech, I would like to give due recognition to the work of Therese Belot and Dale Weigel and reference their paper *FIAS Occasional Paper 3, Programs in Industrial Countries to Promote FDI to Developing Countries*.

MARKETING A COUNTRY



Speech by Mr. Akira Iida
Executive Vice President

MULTILATERAL INVESTMENT GUARANTEE AGENCY

Executive Workshop on
Country and Investment Projects Promotion
in the Arab Countries

DUBAI, UNITED ARAB EMIRATES
November 1, 1993

Al-Salam Aliekom. Excellencies, distinguished guests and participants, it is a great pleasure and honor for me to be able to participate in this important meeting and to share with you various products and by-products which may come out of our discussions during the course of this three-day program.

Coming originally from "the land of the rising sun," it is particularly enjoyable for me to be in the land where the sun is high in the sky. In this beautiful Arab region, the ancient civilization of mankind flourished. The Tigris-Euphrates, the Nile, the Aegean Sea and the Mediterranean are known as the cradles of Western civilization. But it should not be forgotten that they have made a significant contribution to Far Eastern civilization as well. Through the silk road and the sea route, cultural products, together with commercial goods, were also exported from this region to the Far East. Today we can identify and trace the route both of economic transactions and cultural communication between this region and other parts of the world, thanks to advanced scientific technology. Through these studies also, today we appreciate more and more the contributions made to the world by the peoples of this region.

Let us not dwell too much on the past, but let me talk about today and tomorrow. Most of the countries in this region are both producers and exporters of oil, and they are enjoying high standards of living because of oil. Modern civilization which we enjoy today, in a sense, is the result of industrialization which was advanced by large-scale energy consumption. We don't know how far it will go and for how long it will be sustainable.

We do know, however, that oil reserves have their own limit and, therefore, alternative sources of energy are being explored seriously. So far, these efforts are not successful enough, economically speaking. Fortunately or unfortunately, other sources of energy, so far identified, cannot compete with oil in terms of price and volume of supply, as of today.

We are also aware that, if the price of oil goes up, it will meet severe competition from other alternative energy sources. This brings a sense of uncertainty about the long-term sustainability of the oil-exporting economies. Therefore, oil exporters are most concerned about diversification of industries within their national borders and diversification of their capital around the world.

In ancient China it was said, "Once you know yourself and your enemy well, you will not endanger yourself in the hundred fights you will have in the future." I think the leaders of countries in this region understand the meaning of this Chinese proverb better than anyone else. They are aware of the limit of their natural resources and seem to plan diversification of their present resources, both inward and outward, well ahead of time to secure sufficient flow of national income over the long term and beyond the economic life of natural resources.

For non-oil producers and non-oil exporters alike, the Chinese proverb also applies. To know yourself is the best strategy to win a game. If you are aware of your weaknesses, you can improve. If you are not aware, you cannot. When you make improvements, and you are equipped with marketable strengths, you have to market them. My remark leads me to the core issue of today's meeting.

First of all, let me share with you a general observation regarding one important subject of development, which is Foreign Direct Investment (FDI). Throughout the 1980s, leaders of developing nations recognized that the "borrow and spend" policy which facilitated economic growth in the earlier stages did not help them at all. Debt management was so difficult and, when the party was over, some of the countries were obliged to adopt severe austerity plans under the name of economic restructuring. Throughout the 1980s, the importance of FDI was recognized more and more as a growing source of equity investment which brings with it considerable benefits such as technology transfer, management know-how, export marketing access, etc.

These remarks may not apply entirely to some of the richest oil-exporting

countries in this region. However, I believe the essence of the policy implication of FDI can be shared also by those countries. Many developing countries, including these, will need to be more effective in attracting FDI flow if they are to close the technology gap with other high-income countries and upgrade managerial skills, etc.

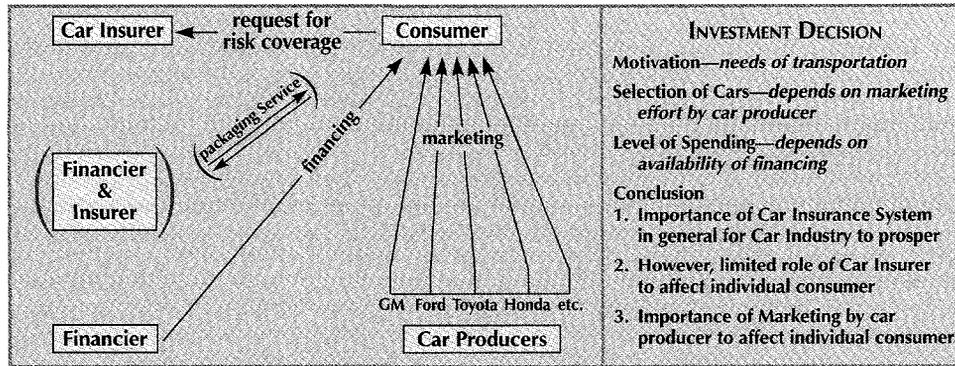
Peculiar to this region is that many of the countries are not only seeking inbound FDI but also are emerging as investors seeking the best opportunities to diversify capital. Keeping this particular feature in mind, let me proceed to the subject of how to attract FDI flows into this region.

In my view, there are two things which need to be done: first, improve the investment climate, and second, market a country vis-à-vis potential investors abroad.

Much has been said about improving investment climate, and there are many advisory services available from various international organizations. So, I will not go further along this road. However, when it comes to marketing a country, public recognition of its importance is not enough, in my view, and the modality to implement it has not been fully explored. Allow me to explain to you how important it is to market a country by taking, as an example, the case of the car industry (Chart 1). Here you have four agents — namely the consumer, the car manufacturers, the financier and the insurer.

The largest motivation for a consumer to purchase a car is, of course, his need to have a means of transportation either for business or personal use. Next, he has to make a choice. The marketing efforts of the various car manufacturers come into play here. They advise the consumer of the strengths of their product. If they do not, the consumer will not buy, and this

CHART 1. Importance of Marketing (Example of Car Business)



will result in their withdrawal from the market. How much the consumer spends on a car depends on the availability of financing. Only after the consumer's decision to purchase a particular car at a certain price does he come to an insurer asking for risk coverage.

From the above, we can draw three conclusions:

- (1) The existence of a car insurance scheme is important for the car industry to prosper.
- (2) However, on the level of individual decision-making to purchase a car, an insurer does not possess much leverage.
- (3) Rather, at this level, the marketing effort is the biggest accountable factor.

In an analogy to the above, we can easily understand how important it is for a country to market itself vis-à-vis potential investors abroad. The importance and necessity of this seem to be recognized by many developing nations, because they usually have some national agency in charge of investment promotion. Yet in many cases, they are not separated from regulatory authorities and their marketing technique is not highly advanced.

I will be very much interested in what happens in this region. But, in order to continue, let me make a general observation which applies to other regions which I know better. If investment promotion agencies (IPAs) are not separated from regulatory authorities, investors hesitate to expose themselves fully to IPAs. This is not helpful to a particular IPA to do its mandated promotional activities.

Marketing is an area where specific skills are needed from preparation of information kits to the after-care services needed by their clients. It is wrong to assume that clients are forming a long queue in front of their offices just to apply for investment authorization. Instead, in many cases, you have competitors whose advanced marketing technology may deprive you of client investors.

Potential investors want to have adequate and timely information on host countries ranging from macroeconomic performance to sector-wide strength, from regulatory framework to various incentive measures, etc. They need the help of an independent or neutral entity that can serve as a go-between, standing between themselves and the regulatory authorities. These days, they rely heavily on private consultants for those services. But, if this can be done by national IPAs, it would be most

helpful and will be appreciated. In addition to these investor services, IPAs should develop their skills regarding (a) image building of a country, and (b) real “investment-generating activities.”

These are what “marketing a country” is all about. After all, IPAs were created for that particular purpose. Looking at the matter from this angle, I think that there is much scope for an international organization such as MIGA to offer its marketing assistance to IPAs.

Let me explain now MIGA’s function within the context of its interactions with national IPAs. But before doing this, I would like to explain to you the general nature of services rendered by different institutions in the World Bank Group (Chart 2).

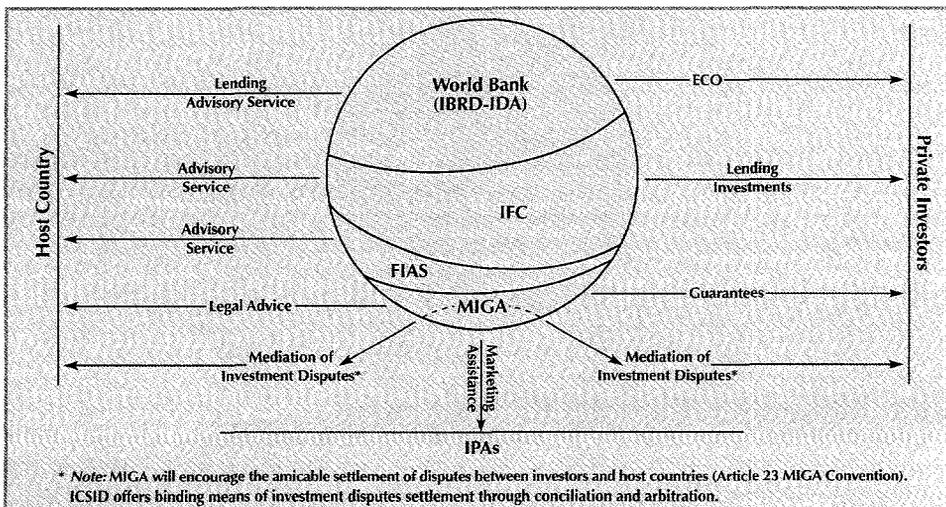
First of all, the World Bank is a name used to represent two international institutions, the IBRD and the IDA. Its clients are primarily government and governmental agencies of member countries and their primary instruments are loans and credits. In some cases, they render advisory services

to governments regarding private sector management, privatization and private sector policies. They have a window to deal directly with the private sector, which is described as the ECO in Chart 2.

The IFC is an institution engaged in private sector lending. Also it provides seed money to the private sector in the form of equity investments. They are active in advisory services in terms of financial market reform or institution building related to capital markets, etc. There is a joint venture called FIAS, sponsored by the World Bank, IFC and MIGA, which offers advisory services to governments regarding FDI and all private sector-related issues. The General Manager of FIAS and the Senior Regional Manager in charge of this region, namely Messrs. Weigel and Arnaoot, are listed on the program today as a moderator and panelist, respectively. I hope they will articulate FIAS’s business better than I do.

Lastly, about MIGA, you will find in the chart a clear image of MIGA’s services and its interactions with private investors, host country governments and IPAs.

CHART 2. MIGA and Other Bank Group Institutions



In essence, we give high regard to the role played by national IPAs as agents serving both national authorities and private investors. Without meaningful and accountable functioning by IPAs, the objective to promote FDI will not be achieved. This is the reason why MIGA will be offering marketing assistance to national IPAs and any other help needed by them to improve their own management. Furthermore, MIGA hopes that through a dialogue with IPAs, we will identify suitable promotional programs to be implemented jointly.

I hope that Mr. Martin Hartigan, MIGA's Administrator in charge of its technical assistance function, who is here participating in the Workshop Program as a panelist and presenter, will be able to develop more fully the concept of marketing assistance and the new initiative launched by MIGA to set up a worldwide IPA network. My role today, however, is not to elaborate on this in detail. But I find it very appropriate for me to stress the importance of the concept of "marketing a country" and, therefore, the importance of the role of national IPAs.

The countries in this region are particularly interesting to me because some of them are not only interested in inbound investments, but also in outbound investments. If this region emerges as a regional economy, where inter-regional investments are flowing strongly, it can produce good clients for MIGA, both for MIGA's Guarantees and for its technical assistance team. In that event, I am convinced that the IPA network will be a most useful instrument, which MIGA can offer to the countries in this region to attract investors from within and outside the region, and to be informed of investment opportunities all over the world.

I did not spend much time on MIGA's Guarantees, but I would like to add very

briefly that we hope to enhance our collaboration with the Inter-Arab Investment Guarantee Corporation (IAIGC), both in co-insurance and re-insurance, to better serve the member countries in this region.

I know, of course, that IAIGC has another important function, which is investment promotion assistance. Like MIGA, it has two arms to promote investment, namely Guarantees and Promotional Assistance. These are the particular features it shares with MIGA and, because of this dual mandate, both MIGA and IAIGC distinguish themselves from other national guarantee agencies. However, IAIGC was created around the mid-1970s, more than 10 years earlier than MIGA. Therefore, I would say that IAIGC is an elder brother to MIGA. I am convinced that we will be able to cooperate on these two fronts closely in the future.

I am also happy to report to you on this occasion that, in my discussion with M. Jean-Marc Derooy of UNIDO yesterday, we agreed to explore, in the future, more efficient ways of cooperation and coordination of our program in this important business of country promotion. In fact, our cooperation has already started to materialize in this regional program in which we are participating today.

To conclude, ladies and gentlemen, let me quote another ancient Chinese proverb which says that "a thousand miles' travel cannot be accomplished without taking a modest first step." A joint effort by MIGA and national IPAs in this region may result in great achievements, but this should start with a modest effort to join forces today.

Thank you for your kind attention.
Shokran.

1993 MIGA LUNCHEON SPEECH ON
"POLICY MATTERS OF MIGA"

1993 IMF-World Bank Group Annual Meetings

WASHINGTON, D.C.
September, 1993

In this speech, I reported to the friends of MIGA who attended the business luncheon, about four policy matters which MIGA management was envisaging at that time: (1) evaluation of MIGA's Policy and Advisory Services, (2) marketing strategy of guarantees, (3) examination of the reserves and capital adequacy of MIGA and (4) the amendment of MIGA's operational regulations. These were subjects which led to a substantial reorientation of MIGA's technical assistance activities and the expansion and quality improvement of its guarantee activities.

POLICY MATTERS OF MIGA



Address by Mr. Akira Iida
Executive Vice President

MULTILATERAL INVESTMENT GUARANTEE AGENCY

MIGA Luncheon

SHOREHAM HOTEL, WASHINGTON, D.C.

September 28, 1993

Ladies and gentlemen: I am very pleased to find many friends of MIGA here today. Some of you were with us at the luncheon last year, while others are new guests. Although this event only started last year, I would like to make this luncheon an important MIGA tradition — to offer an opportunity for everyone engaged in the investment promotion and insurance business to get together and discuss or exchange information on matters of common concern.

This year we celebrate MIGA's fifth anniversary. (MIGA legally came into being in April, 1988.) We have much to share with you, and you have received today an envelope in which you will find MIGA's FY93 Annual Report. This report contains, in the latter part, a five-year retrospective on MIGA.

Now I could explain to you briefly what were MIGA's achievements in these five years. But I will not. These things can be found in the Annual Report. A factual statement on the past will be of no interest to you. You may be more concerned with what we will be doing tomorrow. Yet, I will not do this either, because I don't want to tire you with a long speech. My colleagues and I will be delighted to discuss this with you during and after our lunch.

I am a provocative speaker. For example, I gave speeches on MIGA's role on two occasions. These were received with mixed feelings because they raised some controversial issues. I enclosed these in the envelope as well. By the same token, today, I would like to talk to you about the issues MIGA is dealing with now and their implications for our relationship.

- (1) MIGA is an international institution. It has its own shareholders (countries), clients and staff. MIGA managers should satisfy all of them. How to satisfy our own staff and keep morale as high as possible is purely an internal problem and, therefore, of no interest to you. However, I am pleased to tell you that the World Bank Group is very keen on these matters and regularly checks staff views on management attitude by the use of external consultants every three years. This was the year when we undertook such a study, the results of which have just come out. We are expected to follow up in the coming months to identify issues thereof, and find appropriate solutions. By the way, it may be of interest to you to know that this practice started in the World Bank Group in 1983, following the practice in the

U.S. private sector, and today it is also being followed by some private sector businesses of other regions, including Japan. It is heartening to learn that issues of management are taken seriously and managers are trying to catch up with changes in social and cultural environments.

Nevertheless, we should not forget that an international institution such as ours exists to fulfill its mandate given by the shareholders and to serve its clients. We must satisfy our shareholder countries by providing them with two types of services mandated by MIGA's Convention, namely increasing the flow of foreign investment through the issuance of guarantees and provision of advisory services.

FY93 was an important year for MIGA as the year for policy review. When I joined MIGA last July, the Board of Directors asked me to present an Action Plan. I immediately commissioned a task force of MIGA staff members to prepare the Action Plan.

It started by discussing MIGA's corporate identity and then identified priority actions both in the Guarantees Department that implement one of the mandates of MIGA and in Policy and Advisory Services (PAS), which, together with the Foreign Investment Advisory Service (FIAS), provides promotional and advisory services to our member countries. Throughout the Board discussion, many policy issues came out. The members of the Board asked management (1) to clarify the marketing strategy of Guarantees; (2) to undertake an evaluation of PAS business in order to assess the usefulness and effectiveness of past PAS programs; (3) to assess the Reserves and Capital Adequacy of MIGA; and (4) at the same time to amend MIGA's Operational Regulations, which was also overdue on the agenda.

Management addressed all these questions one-by-one. Let me elaborate on these issues very briefly, because I believe these are issues which have an important bearing on our relationship with many of you today.

(2) **PAS.** The PAS evaluation was done in May. On the basis of the lessons learned by this internal and critical exercise, we have identified a new initiative for PAS, which was launched the day before yesterday in the PAS Seminar to which the top management of national and local investment promotion agencies (IPAs) was invited. Some of them are here today. In brief, the new PAS initiative is to try to unite national IPAs so that the synergistic benefit may maximize the development impact of our joint effort. The background paper of this seminar is also enclosed in the package that you received. I am very pleased to report to you today that the seminar was well received by the international community, and I am confident that this new initiative will bring about an important contribution to the world's investment promotion business.

(3) **Guarantees.** The clients of the Guarantees Department are private investors. As with any commercial activity, insurance needs marketing. We have already submitted our Marketing Strategy Paper to the Board, together with our FY94 Budget and Business Plan. I will not go into detail, but a key element of any good marketing strategy involves a significant effort to increase public awareness of MIGA. It is desirable that MIGA's name be known to the public as if it were Lloyds of London, or Prudential, but with its special stature as an international agency. The

occasion of these Annual Meetings is a renowned opportunity when many people in the financial community assemble from every corner of the world. For this occasion, MIGA produced a booklet — Financial Institution Guide — and also held a Guarantee Seminar yesterday for people from the financial sector coming to the Annual Meetings of the World Bank Group and the IMF. This is one of the ways to implement the marketing strategy which has come out of our earlier reflections.

On the other hand, in order to increase the user friendliness of our Guarantee product, we proposed an amendment to our Operational Regulations involving improvements so that MIGA can be more effective and flexible and offer a better product to its clients. This was already discussed by the Board in an informal session and is awaiting formal Board discussion.

- (4) *Last—let me mention MIGA's Guarantee Capacity.* MIGA's total contingent liabilities (or amounts insured) already reached US\$850 million. This number represents about 90% of total subscribed capital and reserves, which are US\$957 million as of the end of FY93. Under its Convention, MIGA can assume contingent liabilities up to 1.5 times the total unimpaired subscribed capital plus reserves, which were, at the end of FY93, over US\$1.4 billion.

While we have used only 60% of this capacity, we are already preparing for an appropriate increase in Guarantee capacity. The most orthodox approach to cope with this kind of problem is a capital increase. But we are keenly aware that this will not be practical for some time for obvious reasons.

Fortunately, under MIGA's Convention, although the initial gearing ratio is set at 1.5 times the capital and reserves, it may be increased up to five times if the Council of Governors agrees. Having this in mind, management will propose to the Board in due course an appropriate increase in the gearing ratio as an interim measure and, if approved by the Council of Governors, we are hopeful that this will also help solve the country exposure limit, which is also becoming a headache for some countries such as Argentina, Pakistan and Turkey, etc. Nevertheless, it is evident that we cannot rely only on a gearing ratio increase. Although it is impractical indeed to propose a capital increase at this stage, we will have to start preparatory work at a certain stage. With this in mind, work is underway to address the capital and reserves adequacy of MIGA. For the time being, it will remain a study, but it should constitute an important component of the overall review of the MIGA exercise which is required by Article 67 of MIGA's Convention and is scheduled to be reported to the Council by next June.

- (5) Ladies and gentlemen, I have described for you today MIGA's important policy issues because I believe these will be the most relevant affecting the relationship between MIGA management, shareholders, clients and other institutions with which MIGA is cooperating. In conclusion, I am glad to report to you that MIGA is in good shape, not only in terms of its products, but also in its ability to adapt to the challenging demands from shareholders and clients. MIGA is also very happy to be able to cooperate and provide its services to all of you.

I hope I will be able to report good news again to you in Madrid next year.

**“LAUNCHING THE CONCEPT OF
THE IPAnet”**

1993 IPA Network Seminar

WASHINGTON, D.C.
September 1993

This speech was delivered at the IPA Network Seminar, which was one of the events during the IMF-World Bank Group Annual Meetings in September 1993. In this speech, the concept of IPAnet was described as a loose form of a cooperative network, including information exchange. The concept of IPAnet as an Internet facility or information shopping mall constructed on the web site gradually took shape after this IPA network seminar based on feedback from private sector collaborators.

LAUNCHING THE CONCEPT OF THE IPAnet



Keynote Address by Mr. Akira Iida
Executive Vice President

MULTILATERAL INVESTMENT GUARANTEE AGENCY

IPA Network Seminar

September 26, 1993

Ladies and gentlemen, good morning. On MIGA's behalf, may I extend to you a most cordial welcome to our first IPA network seminar.

We are meeting here today at a particularly important juncture in the history of development finance. I would venture to say that never before has foreign direct investment been a more important consideration in the development financing of our member developing countries. Certainly, it has never before been pursued so aggressively by so many nations, states, cities and municipalities, in both the industrial and developing worlds. And to date, the overall results have reflected this heightened attention. But can they be sustained? We at MIGA think they can if we all join together in initiatives such as the ones we want to introduce to you today.

Just three years ago, global FDI reached the previously unimagined height of exceeding US\$200 billion in a single year. That was four times its level in 1986. Strong economic growth in the U.S. and other industrial nations in the second half of the 1980s, global corporate realignments in anticipation of Europe 1992, and currency revaluations in strong Asian economies had a lot to do with this trend. The

cooling-off period in industrial economies since 1990 has undoubtedly helped to account for the subsequent shrinkage of FDI there.

But FDI growth in the developing world and in the economies in transition has continued to zoom ahead since 1990, despite the global economic downturn. FDI there about doubled between 1986 and 1988; then it stagnated for a while. Now it appears to have about doubled again as of 1992. Because FDI inflows into industrial nations have subsided in the meantime, the developing world and transition economies can now claim over 30 percent of global FDI as of 1992, two to three times their share throughout the second half of the 1980s, and more than their share in earlier periods. Perhaps even more remarkable is FDI's new-found importance in the context of overall development finance. In the last two years, FDI has contributed about a third of total long-term financial flows to developing countries.

Clearly, this is a remarkable accomplishment. It reflects the widespread economic liberalization in host countries favoring private trade and investment, and the one-time gains resulting from privatization and debt-equity swap programs. It

also reflects the launching for the first time of concerted investment promotion programs by many host nations and states during the mid- to late 1980s. *Last but not least*, it is influenced by the emergence of newly independent nation states in the former Soviet Union and Central and Eastern Europe.

This generally rosy picture, however, provides no grounds for complacency. Some 20 or so of the larger market economies claimed 85–90 percent of the total FDI going to the developing world in the 1980s, and this trend has been sustained, if not further accentuated in the early 1990s. The representation here today of many of these same countries suggests that you are not taking anything for granted—that you recognize there may be ways to do better.

The more concerted attention you are now giving to investment promotion will, I am sure, pay dividends over the medium term. And the support you are giving to outbound investment to less-advantaged neighbors is a welcome development in dispersing the benefits of FDI around the globe. The intermediate technologies, export marketing know-how and linkages that accompany such inter-developing country investment are often more appropriate to host country conditions, and they may hold the secret to jump-starting the lagging economies throughout the developing world. UNCTAD's Program on Transnational Corporations estimates that already by 1990 close to 10 percent of the world's estimated 37,000 transnational corporations originated from outside the developed countries, that is to say from within countries such as yours. A substantial part of their cross-border activity would naturally occur within the developing world, and it can only strengthen the overall competitiveness and economic health of both host and home countries.

Here at MIGA we place special emphasis on supporting this trend. Our guarantees program strives especially to cover the political risks of outbound and not only inbound foreign investment for those countries which lack foreign investment insurance programs of their own. But we need the help of your IPAs in telling your multinationals about our services.

MIGA's technical assistance programs likewise seek to strengthen the prospects of outbound inter-developing world FDI as well as inbound investment for our member countries. These programs are focusing increasingly on multi-country initiatives which simultaneously help all countries and investors within a region—for example, through regional investment promotion conferences in sectors such as tourism and mining—and activities within a global framework, such as our proposed IPA network.

The benefits of MIGA's programs are, of course, most pronounced for those countries still doing less well in their FDI performance. Such countries are the primary focus of our technical assistance, and we are happy to have so many of you represented here today. Through FIAS, our joint facility with the World Bank and IFC, a wide range of advisory assistance is provided to your countries in improving investment policies, laws and regulations and institutional arrangements to attract FDI. In its brief seven-year history, FIAS has assisted over 60 developing countries and transition economies, some 44 of which are MIGA members.

Even before the policy changes recommended by FIAS and by others are in place, MIGA can still provide its guarantees coverage to member countries that have already entered into investment protection agreements with us. This is an especially important consideration, for

example, in many of the economies in transition where changes to market-based systems will take time. Our lawyers help to negotiate such agreements, and they also provide advice on other investment legislation and related legal issues, sometimes through FIAS.

Last, there is MIGA's own Policy and Advisory Services group, or PAS, whose program is discussed today. Since its operations began some four years ago, PAS has assisted 21 member countries through investment promotion conferences and missions, executive development programs which prepare domestic executives for encounters with potential foreign partners, a policy roundtable in Africa and its follow-up workshops and research on global FDI trends.

After a review of these efforts, we've decided to sharpen our focus on capacity building of investment promotion agencies, or IPAs, in everything we do. As a result, we have a number of new initiatives and new approaches to our existing services that we want to share with you today to see if you think we're on the right track. If we are, we think the resulting changes in direction could have salutary effects on everyone in the FDI marketplace. They would also bring all of us into much closer collaborative association than has been feasible in the past. We look forward very much to your reactions today and to the opportunity to work more closely with you in the future.

Thank you for being here, and I wish you a most productive meeting.

“AFRICA IPA ROUND TABLE ADDRESS”

WASHINGTON, D.C.
September, 1993

This speech was delivered at a Round Table for African IPAs that was organized during the Annual Meetings of the IMF-World Bank Group in September 1993. This was the beginning of the elaboration of the AfriIPAnet support program that has gradually taken shape in subsequent years. The prime mover of this initiative was Dr. Kwaku.

AFRICA IPA ROUND TABLE ADDRESS



*Keynote Address by Mr. Akira Iida
Executive Vice President*

MULTILATERAL INVESTMENT GUARANTEE AGENCY

September 28, 1993

Ladies and gentlemen, good afternoon. Last Sunday some of you attended the MIGA conference where we introduced several management information systems which, when used properly, can assist investment promotion agencies in their activities to attract foreign direct investment. As with all technologies, information management systems must be applied in ways which address the specific needs and circumstances you contend with in the execution of your jobs.

At MIGA, we are utilizing the technologies, as demonstrated, to improve the effectiveness of the traditional services PAS has been providing Africa since our creation.

In its short life span of 5 years, MIGA has paid special attention to Africa. We have organized investment promotion conferences in Botswana, Namibia, and Ghana where entrepreneurs established contacts with businessmen from North America, the European Community and Asia. We have held executive development programs in the Lusophone African countries, Swaziland, Lesotho, Namibia and Zambia where local businessmen were sensitized to key elements of international business transactions. We are in the process of formulating assistance programs in select countries in North Africa.

At MIGA, we strive to develop products and services which are defined in co-

ordination with our clients. Today, we hope to discuss with you how best to build upon the Ministerial Level Policy Roundtable discussions held last May in Gabarone and the follow-up workshops on deregulation in order to attract foreign direct investment. In general, this afternoon should be used to define the problems, opportunities, and constraints that you and your organization face in attracting foreign direct investment.

In particular, it would be helpful if IPA heads, private sector leaders and representatives of other multinationals could touch upon the following issues:

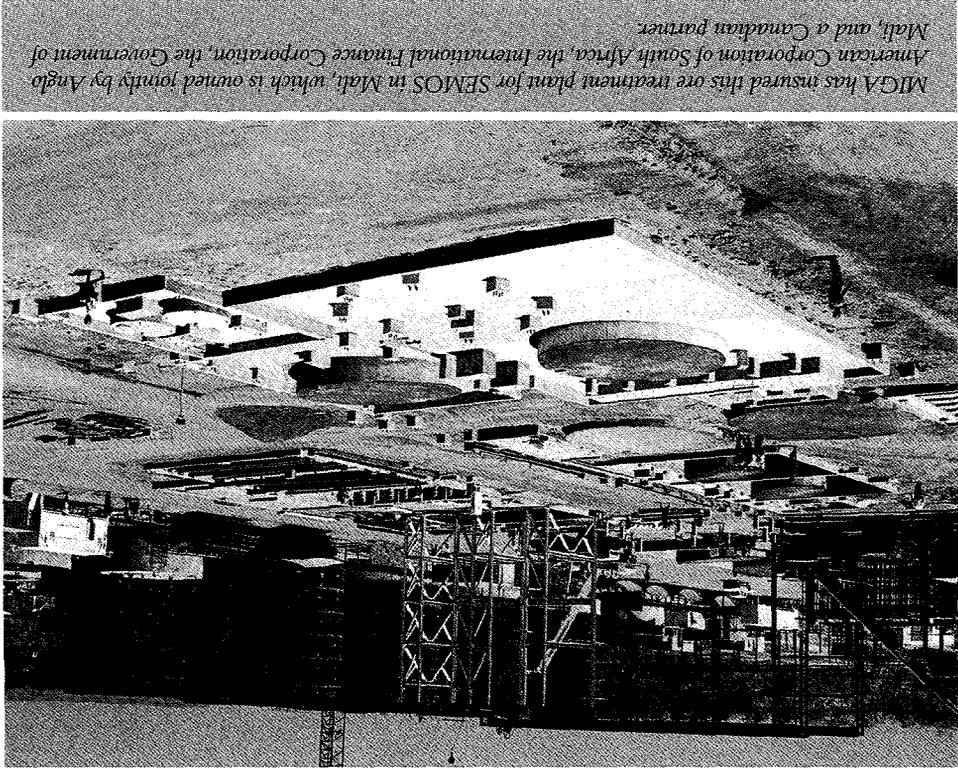
- Prioritizing your industry targets
- Attracting investment for the development of natural resources, light manufacturing, and the tourism industry
- Your strategies for attracting investments from East Asia and the Middle East as well as new capital and technology sources outside of Europe (the traditional source for most of Africa) and
- Overcoming negative misperceptions of your countries.

It is only when we obtain this information that we, as well as others here, such as the African Development Bank, African Business Roundtable, and the Global Coalition for Africa, could provide more effective services to you as IPA managers and our business sector clients.

At the end of this afternoon's session, the output would be an action plan for the region and for the different countries that could be implemented within the near future. In support of the action plan would be assistance programs by international or bilateral organizations, private sector groups, chambers of commerce and national governments.

Finally, an important output we hope will be the creation of a mechanism to ensure continuous dialogue among investment promotion agencies, foreign and local private sector and supporting organizations like MIGA, the African Development Bank (AfDB), the Global Coalition for Africa (GCA) and the African Business Roundtable (ABR) and other emerging regional business networks.

You must define the agenda. We are here to be of service and we hope to keep the discussions going.



MIGA has insured this ore treatment plant for SEMOS in Mali, which is owned jointly by Anglo American Corporation of South Africa, the International Finance Corporation, the Government of Mali, and a Canadian partner.

CHONGQING SPEECH ON
"THE ROLE OF MIGA IN THE WESTERN
PROVINCES OF CHINA"

CHONGQING, CHINA
June 1993

I delivered this speech in Chongqing in June 1993. At that time, China was already the largest recipient of private FDI, but FDI was concentrated in coastal provinces of China and economic differentials between inland and coastal provinces were widening. This was a matter of concern for me, since this could trigger possible political instability in China and heightened political risks for FDI flows to China. Therefore, I asked Chinese authorities (Ministry of Finance, MOFTECH, State Planning Commission) for a meeting with Chinese leaders in charge of investment promotion for seven western provinces, and I offered full support from MIGA in their efforts to attract FDI in inland China.

On my return from China, I stopped by in Tokyo and met with Mr. Kazuo Haruna, Chairman of Marubeni and Vice Chairman of the Japan-China Economic Cooperation Committee, and stressed to him the importance of investment promotion in inland China and risk diversification of Japanese investment in China. As of today, together with the start of the Three Gorges project in China, there is tremendous possibility of a spill-over project in the vicinity of the Yang-tse River. In MIGA, among 23 contracts existing in China, several projects are in inland China, thus enhancing the prospect of harmonized economic growth. MIGA was, I believe, one of the first international agencies to point out that more even distribution of investments is important for future balanced growth of China. MIGA has also made substantial efforts to implement this vision through its limited guarantee capacity.

THE ROLE OF MIGA IN THE WESTERN PROVINCES OF CHINA



by Mr. Akira Iida
Executive Vice President

MULTILATERAL INVESTMENT GUARANTEE AGENCY

CHONGQING
June 17, 1993

Ladies and gentlemen: It is a great pleasure and honor for me to be able to address you on a matter of common interest, namely "Foreign Direct Investment Promotion to the Western Provinces of China."

It has been my lifelong dream to visit Su-Chuang Shang and particularly Chongqing, the heart of its economy. As you know, in my home country of Japan, everybody learns San-Guo-Shi (the tale of three countries of the 2nd and 3rd centuries A.D.). Consequently, all of us have strong compassion for the fate of Liubang and his construction of the new state, Shu.

I. MIGA IN THE WORLD BANK GROUP

First, let me add a few words to explain to you the role of MIGA within the World Bank Group.

The IBRD was established in 1945 to help countries in matters of reconstruction and development. In the early 1960s, a soft window called IDA (the International Development Association) was set up in order to provide long-term credit for 35-40 years' maturity without interest to poorer member countries, and today China

is one of the largest beneficiaries. The World Bank is the institution that covers both IBRD and IDA.

The World Bank today handles a broad spectrum of issues that closely parallel the concerns of national governments aside from defense. Its clients are essentially governments and governmental agencies, and its primary objective is to provide long-term lending to meet the essential needs of developing countries to improve their nations' welfare, infrastructure and productive capacities.

Today, the World Bank's annual disbursements for China have reached an average of US\$ 2-3 billion, and they are directed toward the construction of railways, roads, ports, dams, power stations, etc. In a way, the Bank is *mainly* occupied with the development of the public sector.

What about the private sector then?

Within the World Bank Group, IFC (the International Finance Corporation) was created in the mid-1950s with the principal purpose of encouraging the flow of private capital through lending to the private sector, both in the form of equity participation and the provision of loans.

After all, for a country to take off, it is now essential to encourage the sound development of the private sector in that country so that its economy can be self-supporting from its own economic activities, rather than continue to rely on foreign aid. IFC is also at work in China, and its representative office was established in Beijing in October 1992 to respond to the growing needs of the future.

MIGA, the newest member of the World Bank Group, came into being in 1988. Its purpose is to promote foreign direct investment in its developing member countries under its dual mandate—first, its investment guarantees against noncommercial risks, and second, its investment promotion and advisory services.

Although both the IFC and MIGA are sister organizations of the World Bank, they were established under separate international agreements, and are legally and financially independent from the World Bank. However, they form a group by virtue of the fact that the president of the World Bank is *ex-officio* the president of both IFC and MIGA, and also by the fact that the Governors of the World Bank Group institutions are mostly the same. (In the case of MIGA, a few member countries have nominated different governors, since MIGA's function is not necessarily the function of finance ministers who are normally appointed as Governors for the World Bank and IFC).

Policy coordination among the World Bank institutions is maintained by virtue of the considerations I just mentioned. An example of such coordination is seen in the case of FIAS (the Foreign Investment Advisory Service), which is a joint venture among the three institutions.¹

As I suggested earlier, the World Bank Group has a legitimate and real concern

regarding the sound development of the private sector in developing member countries. FIAS was first created by IFC in the mid-1980s before the creation of MIGA. Today, it is transformed into a joint venture sponsored by the three institutions: IFC, MIGA and the World Bank. As such, FIAS serves as their instrument to advise governments on improving their investment climate and policies related to FDI matters.

FIAS has been active in China for some time now. Two members of FIAS have been visiting various Chinese cities for the past week under arrangements made by the Chinese Government (MOFTEC). Presently, they are in Chongqing to assist me in this gathering.

So far, I have spent a great deal of time explaining MIGA and its organizational relationship to the World Bank Group, because MIGA is a relatively new organization and its function is not yet well understood.

II. CAPITALISM, SOCIALISM, MARKET ECONOMY AND INVESTMENTS

Let me make a few remarks about the purpose of my visit today and the future role of MIGA in the Western Provinces of China. However, before I do this, let me

¹ At the time this speech was delivered, MIGA was one of the sponsors of the tripartite joint venture together with IFC and the World Bank. However, starting July 1994, MIGA ceased to be the sponsor of FIAS and has withdrawn from Policy Advisory Services leaving the function to be taken care of by the other institutions of the World Bank Group. The technical assistance activities of MIGA have been restructured to focus on Investment Marketing Services, and the name of the unit in charge of such services has been changed accordingly.

dwell for a short time on the philosophical issues regarding a market economy and the importance of investment.

China is a country of great philosophers. Most of the Asian people, including the Japanese, highly value Chinese philosophers such as Lao-zu (8th century B.C.), Gong-zu (551–479 B.C.), Mon-zu (372–289 B.C.), Chong-zu (3–4C.B.C.) and so on. There are so many “zus” who over time have become the backbone of Asian culture, which differs significantly from occidental culture in terms of the sense of values, social and family morals, the role of governments, etc.

Even under the socialist government of China, the Chinese people cannot reject the spirit of Chinese culture which has evolved over centuries with its history originating from these philosophies. I know that some may wish to get rid of the spells cast by these philosophers in order to liberate the society from certain old customs or political discipline. However, if you look carefully at what the Chinese people are doing, their behavior can be explained by these philosophers’ sayings. Even when the Chinese Government launches important strategies, they are markedly different from what people in the occidental world can conceive.

Let us take as an example the concept “socialist market economy.” Some occidental economists look down at such a concept for being self-contradictory. Planning and market economy cannot march hand-in-hand. Furthermore, some say that socialism has been defeated. Since the fall of the Berlin Wall, a massive destruction of socialist economies took place from Oder-Neisse to Siberia. However, I do not share these views. Chinese Socialism has not been defeated. Its economy is rising. There are still some socialist governments in power in Western Europe.

The symbolic fall from power in Eastern Europe and Russia was not a defeat of socialism *per se*, but it was in my personal view a defeat of political power which failed to meet the basic principle of politics which was called in ancient Chinese philosophy “Tien-ming”— the command of the Universe.

On the other hand, capitalism based on its existing philosophy of market economy is ailing. Throughout the industrialized world, in the United States, Japan and Germany, their economies are facing problems and a way out has not yet been found.

It is clear that the economy has its cycles in which it swings from depression to overheating. When economists were dwelling too much on the theory of “market equilibrium,” John Maynard Keynes (1883–1946) introduced the theory of “effective demand.”

Whether modern economists like it or not, they became Keynesian when proposing an appropriate prescription to cope with economic deflation. Effective demand can be stimulated by government procurement. No other economic theory offered an alternative prescription to regulate the short-term fluctuation of macroeconomic activities. In Keynes’ “Theory of Effective Demand,” we find an emphasis on the role of government and the importance of investment in the process of economic growth.

Another great economist who had as important an influence as Keynes is Joseph Schumpeter (1883–1950). In contrast to Keynes, Schumpeter emphasized the role of the private sector in the long-term process of economic growth, especially the role of entrepreneurship in bringing about technological innovation. This theory is particularly important in understanding the economic growth of Japan. According to a researcher, 60% of Japan’s rapid economic

growth throughout the period 1965–1975 is attributable to its technological innovation.

In any event, the concept of economic growth was developed by two giants, one related to short-term adjustment of economic fluctuation and the other to the longer-term analysis of economic cycles. One stressed the importance of the role of government and the other the role of entrepreneurship in the private sector.

The most important thing, however, is that Schumpeter predicted that the success of capitalism itself will lead to its fall, which will prepare the route to socialism. While the prevailing view in the occidental world is that socialism has failed, there are also some worrisome symptoms that may suggest the weakness of capitalism such as the widening income distribution gap, etc.

When an economy is in difficulty, entrepreneurs usually press the government to do something to bail them out, instead of being technologically innovative themselves. At the same time, entrepreneurs often accuse the government of being interventionist in regulating market affairs. There is a clear symptom of decline in entrepreneurship which is the base of the capitalist economy. In short, today's capitalism has its problems.

A Japanese philosopher, Takeshi Umehara, remarked recently that the world economy is under the spell cast by Karl Marx (1818–1883). According to Mr. Umehara, Marx may have been wrong in providing the right prescription for the economy of his time, but his criticism of 19th Century capitalism was right. Karl Marx's revenge is now at work and the capitalist world is in trouble.

I don't know whether the predictions of these great philosophers like Marx and

Schumpeter are right or not. However, in light of the situation I have described, I am interested in the concept of "a socialist market economy," which puts more emphasis on the equitable distribution of income among people. Nevertheless, very little has been said or written about this subject so far. I believe that it is of vital importance that this concept be developed further on an empirical basis, because no existing economic theory can explain and provide perfect prescription for the unknown changes which are going to take place in the future. Therefore, the Chinese experiment² deserves significant attention not only from the practical economic interests viewpoint, but also from a theoretical point of view.

III. THE ROLE OF MIGA IN THE WESTERN PROVINCES OF CHINA

I have already taken a long time before embarking upon the issue of investment promotion, which is the main purpose of my visit to Chongqing. By now, I hope it has become clear to you why I dwelt so long on the philosophical presentation of economic theory. My point is that investment is vital for economic growth, and it can be done even under the concept of "a socialist market economy."

Given the enormous size of the gap between the available domestic savings and the amount required to finance planned investments, the financing gap in China is huge.

² There are some economists who say that there is no such thing as "socialist market economy". However, the market is a place where people gather. When capitalists gather, they form the capitalist market economy and when socialists gather, the socialist market economy; why not? The difference may lie in the role of government in the market mechanism played on behalf of the weaker, either directly or indirectly.

The experiment of the 1980s tells us that debt management is most difficult. The “borrow and spend policy” has put many countries in trouble throughout the last decade. This is one of the reasons which precipitated the creation of MIGA in the latter half of the 1980s.

As I said earlier, MIGA’s mandate is to promote foreign direct investment (FDI) to developing countries, where domestic savings are insufficient. In such situations, investment is the major factor of growth and FDI will be required not only from the viewpoint of filling the financing gaps, but more importantly from the viewpoint of development impact in terms of technology transfer, creation of new markets, employment opportunities, etc.

We know very well that FDI is taking place very rapidly in the coastal provinces in the southern part (Fa-nan di-chu) and the northeastern part (Don-bei di-chu) of China. However, this good news is accompanied by newly arising problems, namely a rapid rise in wages and prices in these provinces and hence a growing disparity between the coastal and inland provinces in terms of income distribution and other economic factors.

From the viewpoint of economic management under the concept of a socialist market economy, it is of vital importance to contain the disparity within a permissible range. If such an effort can be successful, China will be a great economy in the early 21st century and will offer a great market and business opportunities for the rest of the world. On the other hand, if the economic management goes wrong, there will be significant adverse effects on the neighboring countries.

China, with its huge population of more than 1.2 billion, has become the focal point of the world economic interest.

It is no more isolated from the rest of the world. On the contrary, it is becoming increasingly integrated with the outside world through its international trade, external borrowing and the hosting of foreign direct investment.

As a member of the World Bank Group’s senior management, I firmly believe that cooperation with the Chinese Government in order to achieve a soft landing of the Chinese economy on the right track of stabilized development is one of the top priorities of the World Bank Group. MIGA, with its special mandate to promote FDI, started consultation with the government in Beijing and we both agree that MIGA’s effort to promote FDI in the Western Provinces will be vital to achieve that objective.

In 1979, the Chinese Government initiated its developmental strategy by creating the “dots,” namely Shen-zeng, Zhuhai, Shan-Tou, and Xia-meng, as Special Economic Development Quarters. This was followed by the designation of fourteen open-port cities in 1984. During the period from 1985 to 1988, the Yanzu River Delta District and others were designated as coastal economic liberation areas. These initiatives were coupled with the decision in 1990 on the “Shang-hai Bu-dong development project,” followed by the decision in 1992 on 36 cities to be opened to foreign investment, including Chongqing and four other important cities on the Chang-Jian (or Yanzu River).

This development in Chinese policy clearly demonstrates the strategy to first draw several “dots”; then make them into a line; expand the line into a zone; and then extend the zone all over China. This strategy is nothing other than the strategy described by Sun-zu (6th century B.C.) and this is why I said in the beginning that even the socialist government of China cannot escape from its traditional culture.

I would say that this is a very orthodox and commendable approach to economic development, and I do not hesitate to add that there are a number of my colleagues in Japan who applaud the effort. Yet Chinese efforts for further economic development are facing a critical phase as to whether they will succeed or not.

In my observation, since the early 1970s, the Chinese economy experienced a rise and fall on three occasions. Each time when the economy declined, China faced a political crisis. Now, the Chinese economy is on the fourth rise and approaching an overheating stage. Some investors are concerned as to what will happen in the next stage.

An effort to contain the widening provincial disparity within a manageable range is, therefore, a top priority for China in the formulation of a soft-landing policy.

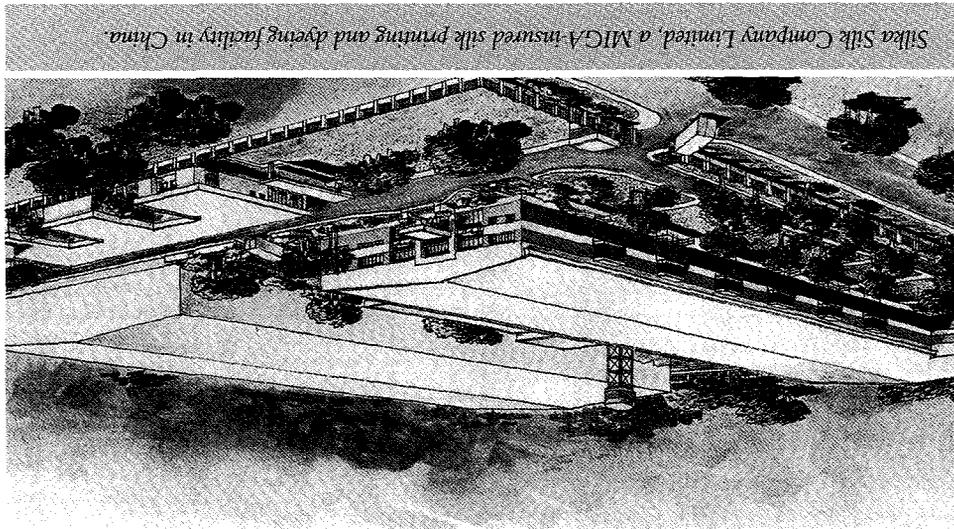
I have come here with staff from MIGA's guarantee and investment promotion departments. I am also accompanied by two FIAS staff members engaged in private sector-related advisory work. This afternoon, we will present to you a cross-section of our business. Tomorrow morning,

I will meet with the leaders of five Western Provinces and the municipality of Chongqing in a panel discussion. We will talk to you about the strengths and weaknesses of each of the provinces from the viewpoint of foreign investors. We shall discuss priority sectors, strategies to attract foreign investors, and possible future cooperation between MIGA and the authorities of the Western Provinces.

To conclude, ladies and gentlemen, let me quote from "Lun-yue," the famous word of Confucius, (Gong-zu) which literally means, "Ask for the old practice and find out the new wisdom" (Wen-gu-zhi-sin). In our case, let me translate it in the following manner: "Ask for the origin of the problem and find out the solution."

Based on that, let us discuss the issues that are of common concern to us, and let us try to find a way to cooperate in the future, so that we can make some practical contribution to the concept of a "socialist market economy" in China.

Thank you for your kind attention.



Silka Silk Company Limited, a MIGA-insured silk printing and dyeing facility in China.

**BRUSSELS SPEECH ON
"THE SPECIAL ROLE OF MIGA IN
THE WORLD BANK GROUP"**

BRUSSELS, BELGIUM
March 1993

Mr. Bernard Snoy, then-Executive Director of the Bank Group institutions, representing Belgium, kindly invited me to a meeting in Brussels with representatives of the Belgian private business community. I delivered this speech in French in March 1993. The English translation is included.

THE SPECIAL ROLE OF MIGA IN THE WORLD BANK GROUP



by Mr. Akira Iida
Executive Vice President

MULTILATERAL INVESTMENT GUARANTEE AGENCY

BRUSSELS

March 8, 1993

Some say that the Chinese think ahead for 1,000 years, the Japanese for 100 years, and Americans for three months. Put in this way, it could be understood as being critical of the Americans for never looking beyond the short term; but it can also be interpreted in the Chinese case as criticism of the slow pace at which things change in the former Middle Kingdom. In the Japanese case, the saying does not quite convey the real facts behind the words.

Originally, this was a slogan coined by the Meiji officials after the fall of the old Tokugawa regime. These officials were criticizing the short-term thinking of the Japanese public at that time and wanted to impress on them the need for a plan that would remain valid for 100 years. They started with a general improvement of primary education, they sent students abroad (mostly to Europe) and they invited large numbers of foreigners to come to Japan as advisers in many fields. You are all aware of the results achieved, even though it may be a matter of opinion whether they were truly fruitful.

As to the three-month horizon that Americans are said to have, it is often cited as a criticism but it also points out the efficiency of U.S. businesses in achieving re-

sults in a short period of time. U.S. executives are expected to set targets and to achieve them quickly. When they are seen as not succeeding, their Boards of Directors expect them to accept the consequences and leave.

In July 1992, President Bush visited Tokyo with 30 business leaders. At that time, I was an executive at JETRO, and we arranged a luncheon in their honor. Each JETRO executive hosted a table. At my table were Mr. Robinson, president of AMEXCO, and Mr. Stempel, president of GM. At another table were Mr. Iacocca of Chrysler, Mr. Poling of Ford and others. Today, after not quite a year, these men are all gone, except for Mr. Poling. This shows how strong external members of the Board are in U.S. business.

As one can see, everything appears differently depending on the angle it is viewed from. I will not ask how far the Europeans are looking ahead. You know the answer much better than I do. But how about international organizations, especially development institutions like the World Bank? I would say that, in my opinion, they ought to be looking at least 10 years ahead, if not 20.

The IBRD loans have an average maturity of 15–20 years and IDA credits (the Bank's soft window) are granted for 35–40 years. MIGA's coverage runs for up to 15 years, in special cases, even 20 years. As you can appreciate, the Bank Group is involved in projects with very long lives. This is one of the reasons we need to look sufficiently far ahead.

Next year will mark the 50th anniversary of the Bretton Woods Conference. However, we are today hearing increasing criticism regarding the performance of the institutions conceived on that occasion. Some of these criticisms are justified, but others are not (this is something I do not want to go into right now). However, if you want to think about the role and usefulness of a development institution and how best to improve its performance, you have to adopt a perspective which is sufficiently long. I can remember that back in the late 1960s the value of the World Bank's assistance was already being questioned. The book *Aid as Imperialism* criticized it as a commercial promotion instrument of the donor countries. The problems concerning lack of follow-up, inefficiencies in project execution or accumulation of undisbursed amounts were certainly there 20 years ago. Today, these same criticisms are being heard again both inside and outside the Bank. In an institution, self-criticism is a sign of health, while outside criticism should be carefully examined to see whether it can lead to positive solutions. Yet I can assure you that throughout the Bank's approximately 50-year history much of value has been achieved. The average standard of living has improved significantly in many developing countries, although we must not forget that this has also been largely the result of the self-help efforts of the countries concerned.

In the early days, the Bank played a very important role in providing assistance

for infrastructure projects in fields such as energy, telecommunications, roads and railways, irrigation and so on. Social concerns began to be addressed in the late 1960s and 1970s. The Bank's portfolio was expanded to include concerns such as education, population and health, while toward the end of the 1980s environmental and women's issues assumed growing importance. On the economic side, throughout the 1980s structural adjustment, review of government's role and privatization emerged as the main topics, together with the growing debt problem.

This steady increase in the World Bank's portfolio can sometimes give the impression that some people want to shift the dirt from in front of their doors and dump it in front of the Bank's. How can the Bank Group successfully deal with such an overload? I feel there is a certain contradiction between the role assigned to the Bank and the means placed at its disposal. But I will come back to this issue later.

The World Bank's concern for the promotion of the private sector led to the creation of IFC in 1956. The next stage was the establishment in 1965 of the International Centre for the Settlement of Investment Disputes (ICSID). This was followed more recently by the establishment of MIGA in 1988 and the creation within the Bank of a new Vice Presidency (Finance and Private Sector Development) at the beginning of the year. I will not go into the details regarding the history of these institutional changes within the World Bank Group; I just want to emphasize that the creation of MIGA marked a very significant change in the approach to questions concerning the private sector and greatly increased the scope of the Group's activity in this field. After all, for a country to take off, you need a successful private sector. You cannot rely permanently on aid. A country has to develop a private sector by

itself and the World Bank Group can provide focused assistance in this effort. This objective is clearly stated in Article 2 of the MIGA Convention:

“The objective of the Agency shall be to encourage the flow of investments for productive purposes among member countries, and in particular to developing member countries....”

MIGA has two main instruments for promoting foreign direct investment in developing countries. One is its Guarantee Program, and the other, its Technical Assistance services. Let me explain who the beneficiaries of these services are. The parties concerned are, respectively, private investors in industrial countries, the private sector in the host countries, and their governments. In order to clarify the relationship among them, let me use the example of PC software. Here, too, you have three distinct parties: software producers, hardware producers and the users. MIGA would be the software producer, while private investors in the member countries and their joint-venture partners in developing member countries would be the users. The host country governments could be compared with the hardware producers in that, as the range of available software increases, so benefits accrue to the host country through the development of the country's private sector. This is the reason the governments of developing countries have a strong interest in MIGA's services and this is why they are willing to pay the required capital subscription to become members of the Agency.

And what of Technical Assistance? You, as private investors, are well aware that the reasoning behind investment decisions can be very complex. There may be economic factors in play — labor costs, for instance, tax incentives or market expan-

sion aims — while political, social or even personal factors may also enter the picture. When investors are pressed to state their real reasons for investing in a particular country, be it in South America, Africa or Asia, they will quite often answer that it is the place where they spent their childhood, or where their forebears came from, or for which they were asked to provide certain technology and, in doing so, decided to establish themselves there. Although many approaches can be taken in trying to identify the macroeconomic factors underlying an investment decision, they take you so far but no further; while at the micro level it is quite impossible to explain this type of decision on economic grounds alone.

Whatever the reasons for an investment decision, the right opportunity for implementing it has to be found, economic and technical feasibility studies have to be conducted, financing has to be negotiated and both commercial and political insurance coverage arranged. One of the major features of the MIGA Technical Assistance program is that it helps the investment promotion agencies that exist in many developing countries to market their countries successfully and provide necessary information for potential investors. MIGA is also active in many countries through its jointly managed venture, the Foreign Investment Advisory Service (FIAS). These are both ways of promoting foreign direct investment.

The development impact of these activities can be described as follows. In the case of Guarantees, it is tangible. You can count the number of jobs created, the amount of foreign exchange earned and so on. In the case of Technical Assistance, it is not so easy because it is difficult to assert categorically that technical assistance activities have really generated a particular investment. (As I already noted, the real motivation behind an investment decision

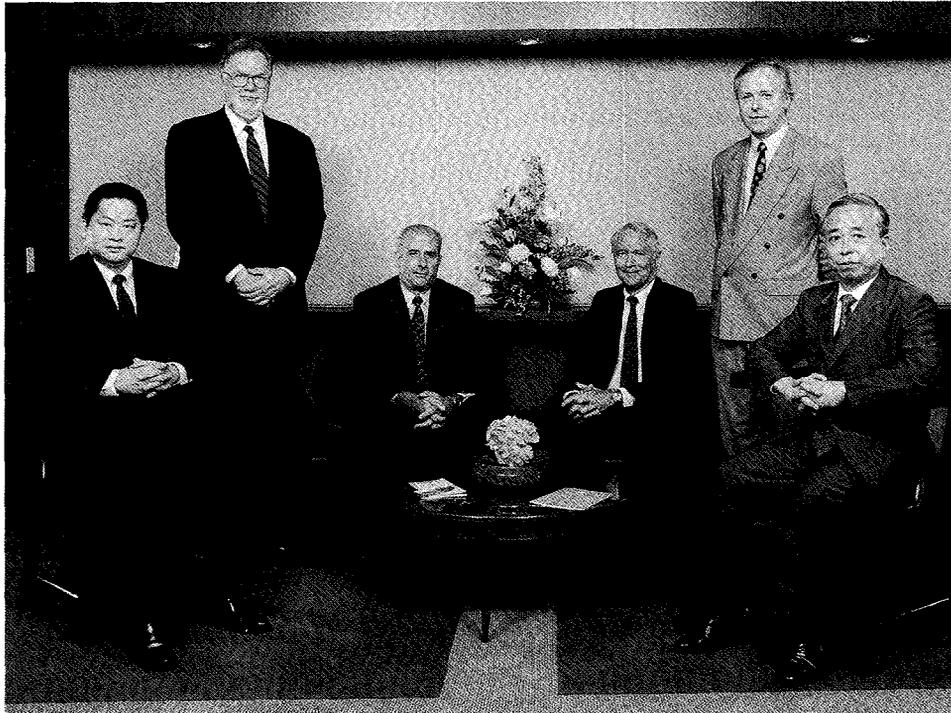
is highly complex and therefore almost impossible to pin down.) In other words, the fruits of technical assistance are so intangible that their development impact is difficult to quantify. But one can readily understand how important it is for a country's development for it to possess human resources capable of planning and executing a project efficiently, whether in the private or the public sector.

When I said earlier that there is a certain contradiction between the role the World Bank Group is expected to play and the resources made available to it, I had this particular problem in mind. Except for MIGA, both the Bank and IFC were designed as financing institutions. Financing is concerned about recovery of the invested money. Therefore, financiers have a legitimate concern regarding the economic, technical and financial feasibility of a project. This is the main reason they employ so many experts as economists, financial analysts, engineers and so on. The important point here is that these people are well able to make the required appraisals, but they are not the ones who have to execute the projects. Implementation is up to the host country or the private sector. In a sense, I wonder whether the World Bank Group has devoted enough attention to developing human resources in the developing countries. Just putting up the money to hire consultants to implement a project is not necessarily the most helpful move in this context. It is true that there has been a modest training effort for many years, but it has not been a primary objective.

When all is said and done, it is people who spend the money. And if the money is not used efficiently, it will not help further development. Although the Bank is most concerned to ensure that funds are used as efficiently as possible, if a competent person is not found to be put in the right place at the right time, the implementation of a project will not be entirely satisfactory. In Japan, there is a song people love to sing in the Karaoke bars and that says in effect, "Man is both the castle and the wall surrounding the castle." In other words, people are more important than anything else. This is why, 100 years ago, during the Meiji restoration, people invested in people.

Today, one hears frequent references to the Asian miracle, but there is not really any miracle. In those Asian countries that have made strong progress, people are well educated and disciplined and there is a solid bureaucracy, whether efficient or not. In other words, they have good men to defend the castle and its walls.

As far as investment promotion is concerned, MIGA considers this a very important point and is prepared to help developing countries by contributing some additional value-added to their business promotion efforts through enhancement of the efficiency of their investment promotion agencies. MIGA is also looking forward to developing activities of its own in the field of support to investment guarantee schemes. In addition to its core business, which is guarantee services, MIGA is prepared to make a significant contribution in this area through its technical assistance activities.



OFFICERS OF THE AGENCY: (as of June 30, 1996)

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 Daniel E. Conway, Manager, Office of Central Administration
 Luis Doderó, Vice President and General Counsel
 Leigh P. Hollywood, Vice President, Guarantees
 Martin Hartigan, Administrator, Investment Marketing Services
 Akira Iida, Executive Vice President.*



*Karin Millett replaced
 Martin Hartigan
 (above) as of
 November 1st, 1996.*



*John Griffith retired
 and was replaced by
 Daniel E. Conway
 (above) as of
 November 1st, 1995.*

ASPEN SPEECH ON
"PROSPECTS FOR JAPANESE AND U.S. POLICIES
IN THE ASIA AND PACIFIC REGION
IN THE 1990S"
Aspen Institute

October 1992

This is an annual meeting of Japanese business representatives and US counterparts and I was invited to one of the meetings which took place in the Aspen Institute, Wye Plantation, October 1992. The subject I was asked to speak about was the "prospect for Japanese and US policies in the Asia-Pacific Region in the 1990s." In this speech, I suggested that Japan and the U.S. could collaborate more on the investment front rather than on political fronts and discussed the differences between the Asian and Occidental models of business. Since NAFTA negotiations were under way at that time, my contention was that it would not be fruitful for the US to press Asian countries to follow the pattern of NAFTA in the Asia-Pacific region.

However, I was surprised by the fact that the discussion that subsequently followed my speech focused on the nuclear threat in China or Pakistan. I was clearly outmoded in terms of the major stream of the discussion. The pertinence of my speech will have to be judged by the economic and political developments in the future.

PROSPECTS FOR JAPANESE AND U.S. POLICIES IN THE ASIA AND PACIFIC REGION IN THE 1990S”



October 3, 1992

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I. DIVERSITY IN THE ASIA AND PACIFIC REGION

Mr. Chairman, ladies and gentlemen: Family values is one of the important credos of President Bush's campaign.

Confucius said, "Family values are mine, not yours, Mr. Bush." Whether he did say so or not doesn't matter. When Americans refer to Mr. Confucius in their daily conversation, it is often related to a joke. Such is the case of nonsense jokes coming out of fortune-teller boxes in Chinese restaurants in America. But Mr. Confucius is still alive in Korea. We can't understand what is taking place in Korean politics today without understanding what he said 25 centuries ago.

Although Confucianism is dispelled by the Chinese Communist Party, it is a part of Chinese culture today. Different schools of Buddhism are active in various parts of Asia. But politically speaking, like Confucianism, they are not strong driving

forces of Asian politics. Yet they play an important role in forming the general standard for people's judgement on moral codes or social and family values. Islam and Hinduism are the strongest driving forces of politics in Southern and Western Asia.

I am referring now to the diversities of the Asia and Pacific region. This region is diverse in many ways. Not only in terms of religion, it is diverse in terms of racial origin, the language spoken, social and family customs, etc. The diversity gives rise to differences in the sense of values, sense of duty and life style. In most cases, such differences exist within the country as well as across the region. *How to manage such diversity* will be a crucial factor for a country and for the region as a whole in determining their own development process.

When addressing the subject such as ours today, you may wish to share with me the same observation that *Diversity management* can be, and in fact is, a key factor of policy formation. In this strange terminology of *Diversity management*, I propose to understand the whole process of a

nation's effort to make people having different backgrounds in terms of race, religion, or language coexist harmoniously in a school, in a business circle, in a community or in any economic and social framework of a nation. Such is the challenge which Eastern Europe and the Former Russian Republics are facing today. (A mere analysis of diversity existing in the region in economic terms will not be sufficient to understand why Asian countries are doing better than elsewhere. People say that diversity is the very source of the dynamism in the region. But, you may say it more appropriately that the excellent way of managing diversity made them work all together in a positive direction. I am referring here to the way they formulate their own institutions and the role of governments in the enforcement thereof.)

Clear differences of approach are seen here between Asians and East Europeans or Former Russians as to the role of governments. Many occidentals consider that Asian governments are more interventionist than theirs and say that the *free market approach should prevail* so that an economy can perform in more efficient ways. The problem here is that you cannot go into free market systems unless diversity in the political, social and economic fronts is well managed. Otherwise it will end up with the victory of the stronger. And racial, religious or other differentials will aggravate the confrontations among people so that the very diversity existing in an economy would adversely affect the economic performance of the country.

Many of the Asian countries have started their new life as independent nations just after the Second World War. They started with an appalling state of underdevelopment and poverty.

In the 1950s, only the Philippines and Burma were praised among East Asian

countries (except for Japan) for their good economic performance throughout the period. Many other countries such as Thailand, Malaysia, Indonesia, and so on were left far behind because they were still in the process of finding an agreement or compromise on a political front among political leaders representing various interest groups based on such diversities within their own territories. *And they made it!!* In a certain sense, Asian countries are *advanced countries* in terms of diversity management.

The Asian way of diversity management has also set up an interesting approach in formulating or not formulating at all a forum of cooperation within the region, which is *conspicuously different from the Occidental approach*. Nevertheless they seem to be starting now to rethink the way to enhance mutual cooperation within the region in view of the emergence of NAFTA in North America and the EEA plan in Europe. I will be glad to develop my thoughts on this soon.

But before doing so, let me say this. I started my presentation by mentioning the strange notion of *diversity management* and the role of Government, simply because I believe it is relevant to our discussion today. In other words, I believe that the recognition of this notion will certainly provide a better angle of approach to the matter.

If we are to discuss the matter *to find out* where lies our mutual interest namely the interest of U.S. and Japan in the region, and *to look into* how we can cooperate in *materializing* this interest and *to assess* the prospects of such policy efforts, we should address the following question: in what terms do the developing countries in the region, wish to cooperate with us? A unilateral sale of our sense of values or mere sale of economic interests should be avoided. Instead, *they should be listened to first*, be-

cause their sense of values and their economic interests might be different from or may even be in conflict with ours. In this context, I am somewhat concerned, as a manager of an international agency, about the way both the U.S. and Japan are behaving in the region. It seems to me that both governments and private sectors tend to care mostly about their interests and care less about the quality of their contribution in the region. What they give to the nations in the region tends to be given at times just because they can afford it and not because they are wanted by those countries. Of course, it is a question of relative judgment and I do not deny that sincere efforts are being made in some cases. But, the question is whether general perceptions in the region support such a view. I am also concerned about the trend throughout the 1980s of a rapidly diminishing U.S. presence in the region.

2. MODEL OF COOPERATION IN THE ASIA AND PACIFIC REGION

These observations quickly lead me to *present to you a question* as to what should be the desirable *Model of Cooperation in the Asia and Pacific Region* in which both U.S. and Japan have mutual interests of vital importance.

First, about Taxonomies. When seeking a desirable Model of Cooperation, it is appropriate to start with taxonomies because the menu of cooperation may vary from one group of countries to another depending upon the development stage they find themselves in. Then I would mention the general feature of challenges they are facing, because this is the area where they wish to have substantial inputs

or contributions from their more developed partners. The nations in the region may be roughly grouped into four different categories, according to an internal paper of the World Bank. The criteria of such classification is per capita income ranking.

- (1) Graduates: Singapore, Hong Kong, Taiwan (China)
- (2) High fliers: Korea, Malaysia and Thailand (percentile position of 60% and above)
- (3) Socialist economies in transition: China, Cambodia, Laos, Mongolia, Vietnam, Myanmar and North Korea
- (4) Island economies, large and small: Indonesia, Philippines, PNG and smaller Pacific countries (Ibid. 30-60%)

Some might say that South Asian countries such as Pakistan, India, Nepal, Bangladesh and Sri Lanka are forgotten. Some others might argue that southern former Russian republics should also be included in the formulae.

The above Taxonomies are apparently academic and do not necessarily provide a practical format for regional cooperation. For example, you can't group the ASEAN countries into three different categories, despite the fact that they are participating in the ACEAN treaty as equal partners. Nevertheless, these taxonomies *can be useful in identifying the appropriate menu for cooperation.*

The important question is *how far and in what priority* the U.S. and Japan may wish to help these different groups of nations and *what will be the appropriate menu* for them. This question leads me to another comment.

So, let me turn now to **the challenges** these nations are now facing. Earlier, I mentioned the diversity in the region. But, they

have also many common elements. Among the top-most countries, for example, common challenges are;

- (1) Infrastructural Bottleneck Problems
- (2) Accelerating Enterprise Reform
- (3) Continuing Financial Sector Reform
- (4) Stepping up Environmental Protection
- (5) Supporting open global Trade and Investment Systems

In order to save time, I will not go into the case of less developed countries in the region. But, the important question here is *whether* the U.S. and Japan are ready to make a significant contribution and if so, What is the priority area or the area of relative competitive-edge for their contribution?

3. ASIAN MODEL VS. OCCIDENTAL MODEL

In the earlier part of my presentation, I said that the Asian countries had set up an interesting approach in *formulating or not formulating at all* a forum of cooperation within the region, although they seem to be *rethinking* the matter. When I say that they are rethinking, I specifically mean the broad idea of AFTA touched off by the NAFTA negotiation.

I am not familiar with the concrete scheme of the AFTA Plan nor well-informed about where it stands now. But I am wondering whether it could be possible for the Asian nations to agree upon such a scheme, if it were to be based on any Occidental model.

You may wish to argue that the North American approach and European approach are not the same. But, they have a conspicuous difference vis-à-vis the Asian approach in that the former involves an

important common feature of dealing with the sensitive questions of human resources such as the mobility of labor, while the Asian format of cooperation will not likely include such items.

In Asia, in my view, the force that differentiates each country tends to be stronger than that which unifies them. In other words, I may say that the diversity of Asian nations may not allow them to follow the *Occidental model of regional cooperation* involving harmonization of sensitive issues of *human resources*, although they may wish to agree upon arrangements for training and other less controversial issues. We may also expect something regarding financial resources and physical settings. Trade and Investment will be the most likely area of agreements. Yet, they will not exceed for a long time to come, the level of the very loose format of economic cooperation such as the ASEAN Treaty.

Asian Markets have reached, however, a level comparable to North American and European Markets in terms of the volume of both inter-regional trade and investment. There is a clear need for more concerted effort within the region, since the entrepreneurial activities across the national border, have reached a level as important as inter-provincial transactions in any country in the region.

In the above context, it will be also interesting to hear from you about the **possible development in the region.**

Within the limited time allowed, I tried to sum up the possible items for your discussion, in search for the point of common concern, which may be also of much relevance to my official job. I hope that my presentation has not deviated too much from the issues of interests to you.

Thank you for your kind attention

■ PERSONAL HISTORY.....



Akira Iida, Executive Vice President

EXPERIENCE:

March	1963	Diplome Tokyo University, Faculty of Law
April	1963	Banking Bureau, Ministry of Finance (MOF)
August	1972	Tax Bureau, MOF (<i>Income Taxation and Tax Treaties</i>)
July	1975	Economic Planning Agency (<i>Short-term Economic Forecast</i>)
June	1978	Technical Assistant to the Chairman of WP3/EPC/OECD
June	1980	Technical Counselor, Prime Minister's Cabinet (<i>Prime Minister Suzuki</i>)
June	1982	Assistant Vice-Minister for International Affairs, MOF
June	1983	Financial Counselor, Japanese Permanent Delegation to OECD (<i>Chairman, CMIT/CMF Joint Group on Renovation of OECD Code of Liberalization in Financial Areas</i>)
June	1986	Director, Control Division, Banking Inspection Department MOF
June	1987	Director, Tokyo Office, World Bank (IBRD, IDA)
June	1989	Deputy Director-General, Customs and Tariff Bureau, MOF
July	1990	Executive Director, Japan External Trade Organization (JETRO)
July	1992	Executive Vice President, Multilateral Investment Guarantee Agency (MIGA)

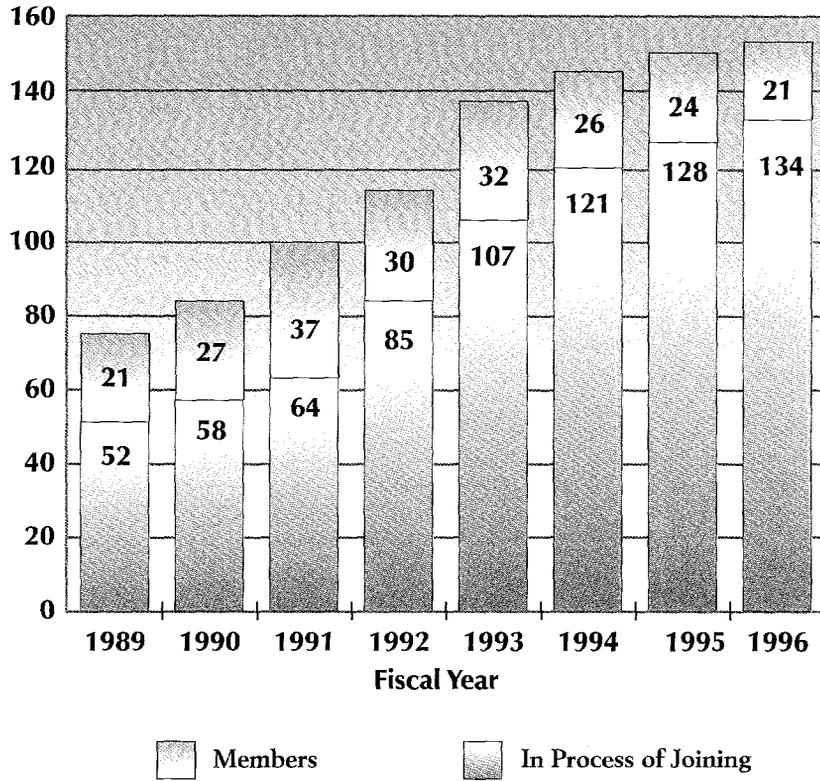
ANNEXES



MIGA BUSINESS PROFILE

I COUNTRY MEMBERSHIP

Number of Countries



MIGA is an independent agency of the World Bank Group, with its own country membership and capital base. However, World Bank membership is a prerequisite for MIGA membership; other membership requirements include signature and ratification of the MIGA Convention, and payment of a capital subscription.

MIGA has witnessed a steady increase in country membership from 52 members in FY89 to 134 (19 industrialized and 115 developing) countries in FY96. Six new countries completed their membership requirements in FY96: Algeria, Armenia, Colombia, Guinea, Sierra Leone, and the Republic of Yemen. An additional 21 countries are in the process of fulfilling membership requirements (See Appendix for members as of September 1, 1996).

II GUARANTEE ACTIVITIES

Fiscal Year	1990	1991	1992	1993	1994	1995	1996	Total
Number of Guarantees	4	11	21	27	38	54	68	223
Max. Aggregate Liability (US\$million)	132	59	313	374	372	672	862	2,784
Estimated FDI Facilitated (US\$billion)	1.0	0.9	1.0	1.9	1.3	2.5	6.6	15.2
Estimated Number of Jobs Created	2,700	3,680	2,920	1,720	7,800	8,800	7,200	34,820

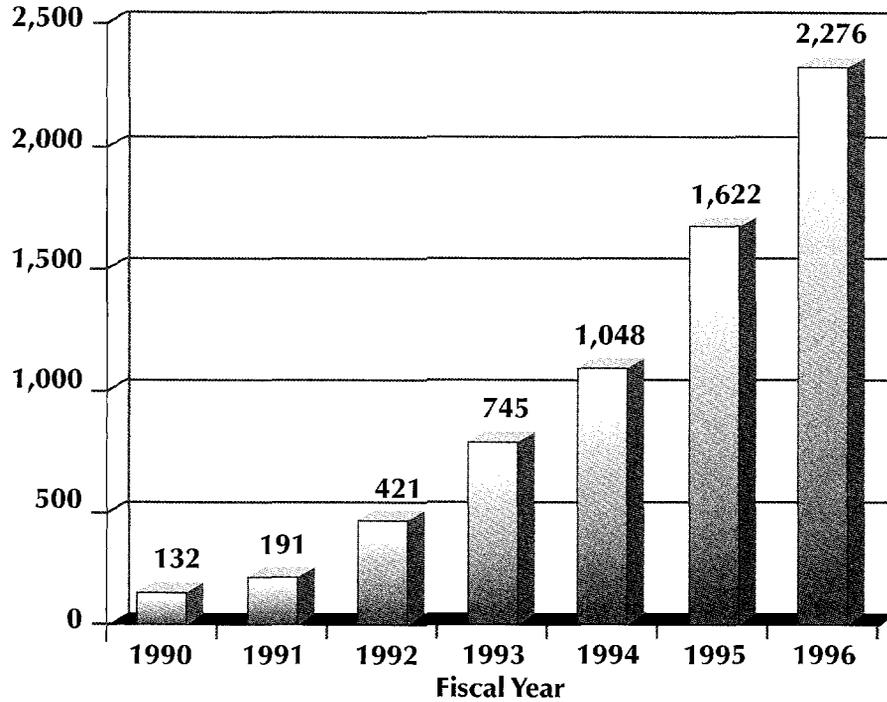
MIGA experienced record growth in its investment guarantee business in FY96: in the number of guarantee contracts issued, amount of coverage underwritten, and foreign investment facilitated.

Overall, the Agency's 223 guarantee contracts have covered investments by investors from 24 member countries to 41 developing and transition economies around the world. One measure of MIGA's development impact is that the total estimated foreign direct investment facilitated (\$15.2 billion) by its insured projects is about seven times the amount of its outstanding contingent liabilities (\$2.3 billion) as of FY96.

MIGA insured projects in many sectors during the year, including satellite telecommunications facilities in Uganda and Tanzania, a fruit juice and concentrate plant in Russia, soft drink bottling facilities in Brazil, Kazakstan and the Kyrgyz Republic, and power plants in Argentina, China, Jamaica and Nepal.

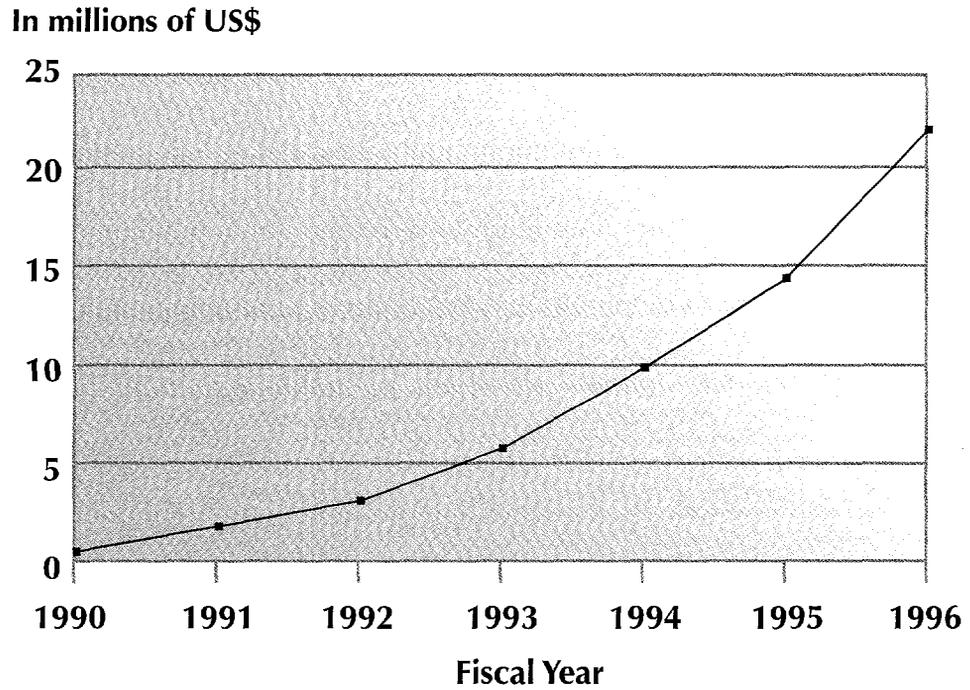
III MAXIMUM CONTINGENT LIABILITY OUTSTANDING

In millions of US\$



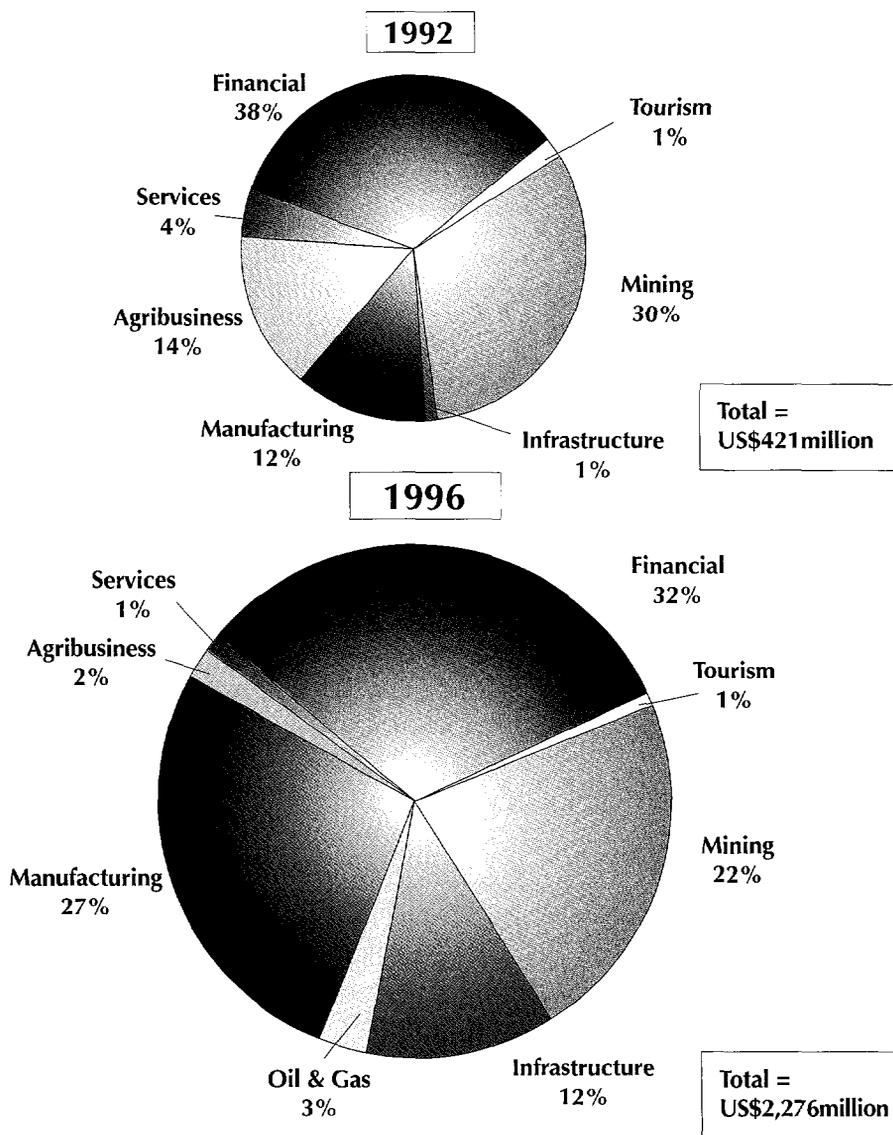
The strong demand for MIGA's guarantee services is illustrated by the Agency's maximum contingent liability which has increased from \$132 million in FY90 to \$2.3 billion in FY96. MIGA's Board of Directors increased the Agency's allowable risk-to-assets ratio—from 1.5 to 2.5 in FY94 and, further, to 3.5 in FY96. At the end of FY96, MIGA's capital and reserves were \$1.1 billion, which allows the Agency to issue up to \$3.9 billion in coverage (i.e., \$1.6 billion of additional coverage for projects beyond its current exposure). The continuing demand from investors for MIGA's guarantees has prompted the Agency to seek an increase in its authorized capital to allow further expansion of its business.

IV PREMIUM INCOME



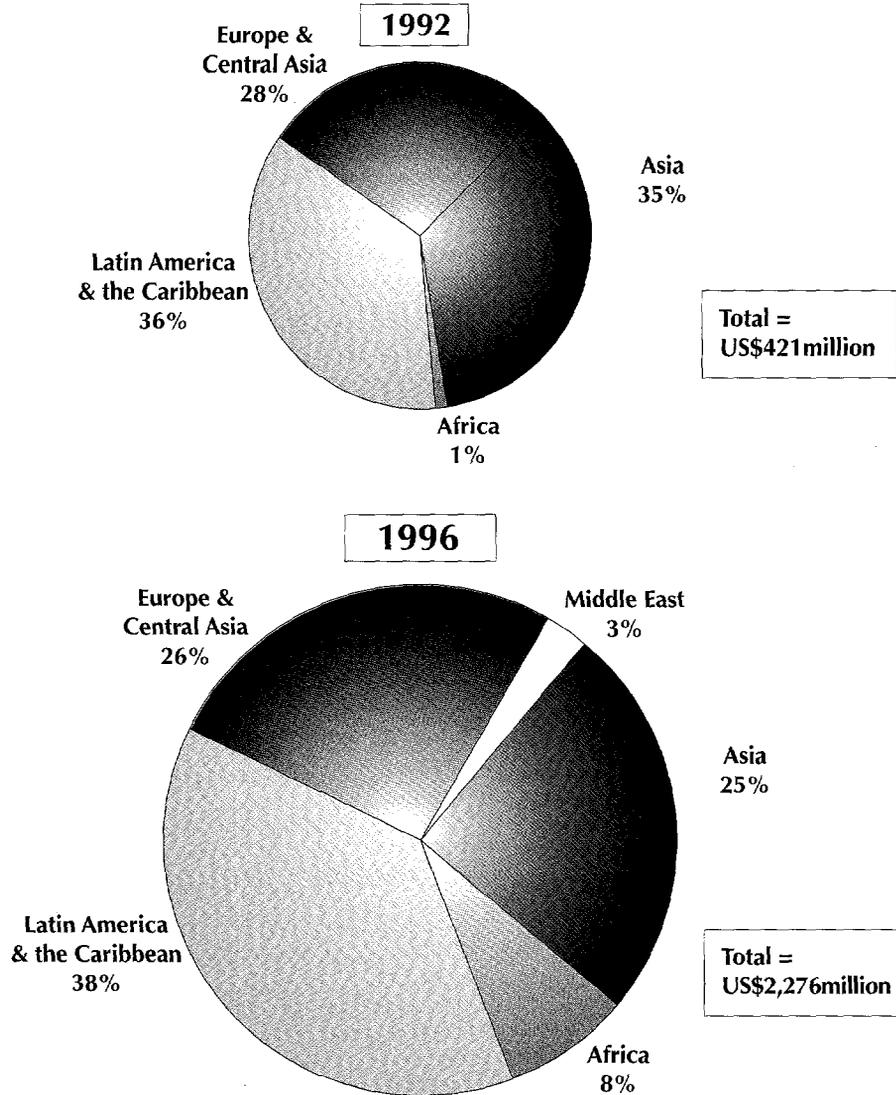
Consonant with the growth in its guarantee business from FY90 to FY96, MIGA's earned income from premiums and commitment fees rose from less than \$1 million in FY90 to \$21.9 million in FY96, which was an increase of \$7.5 million over FY95.

V OUTSTANDING PORTFOLIO BY SECTOR (MAXIMUM CONTINGENT LIABILITY)



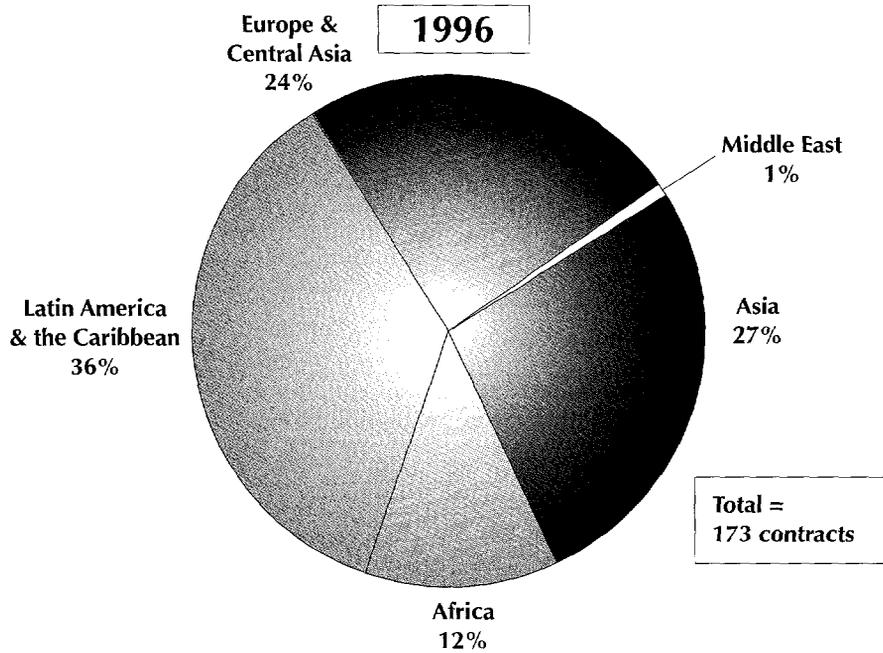
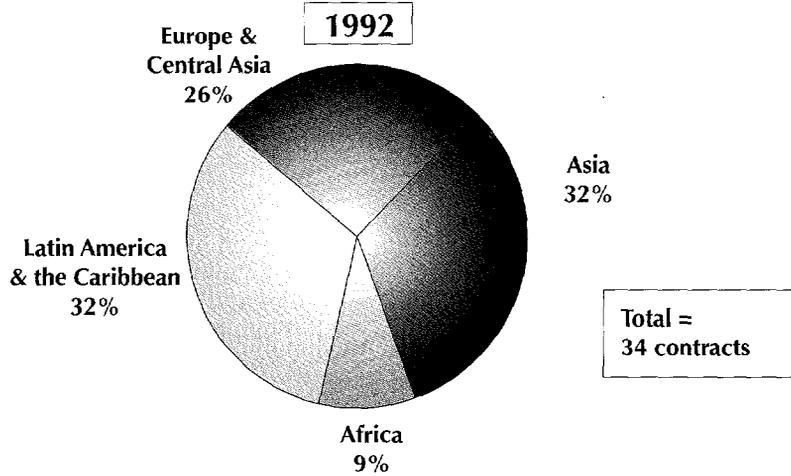
Since its creation MIGA has attempted to diversify its portfolio broadly by country and sector for effective risk management. The financial sector accounts for about one-third of the portfolio, currently reduced from a higher percentage, while manufacturing and infrastructure have been the fastest-growing sectors.

VI (A) OUTSTANDING PORTFOLIO BY HOST REGION (MAXIMUM CONTINGENT LIABILITY)



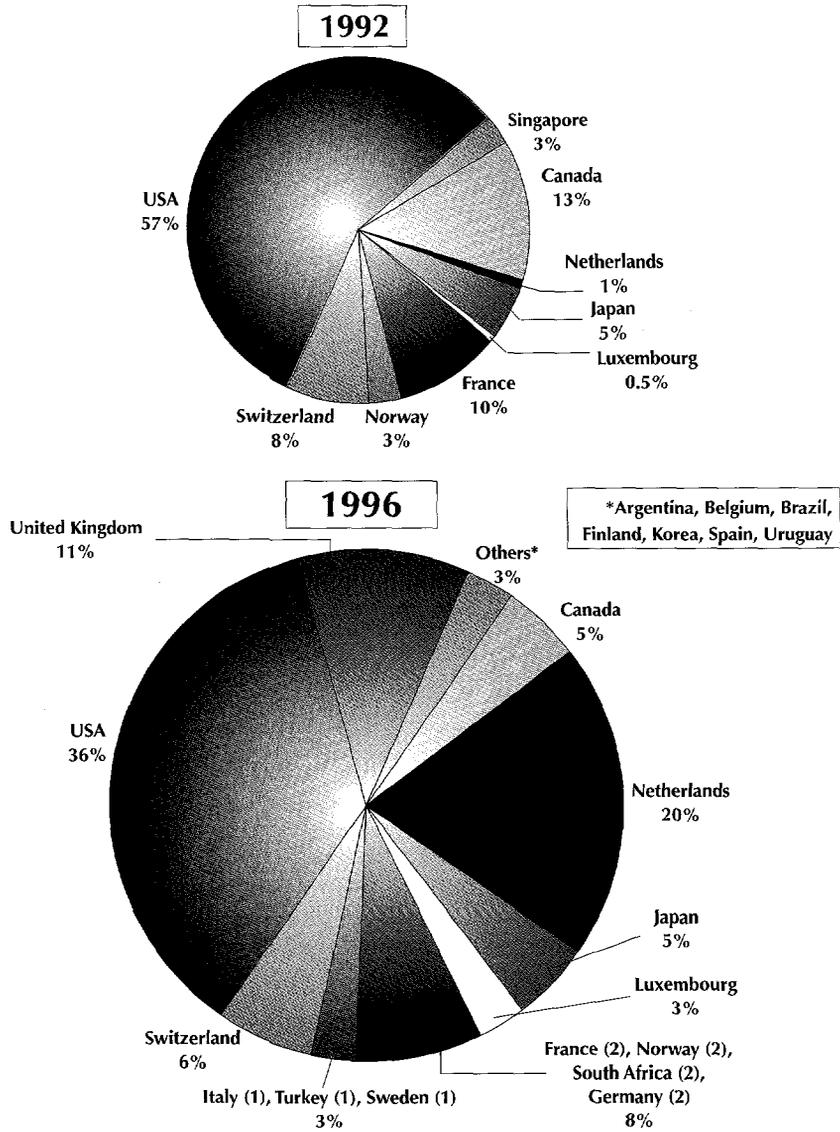
MIGA-insured projects in Latin America and the Caribbean constitute the highest portion of the portfolio, reflecting the continued interest of investors in this region. Increasing opportunities in Africa and the Middle East have contributed to relative growth of MIGA's portfolio in these regions.

VI (B)
OUTSTANDING PORTFOLIO BY HOST REGION
(NUMBER OF CONTRACTS ISSUED)



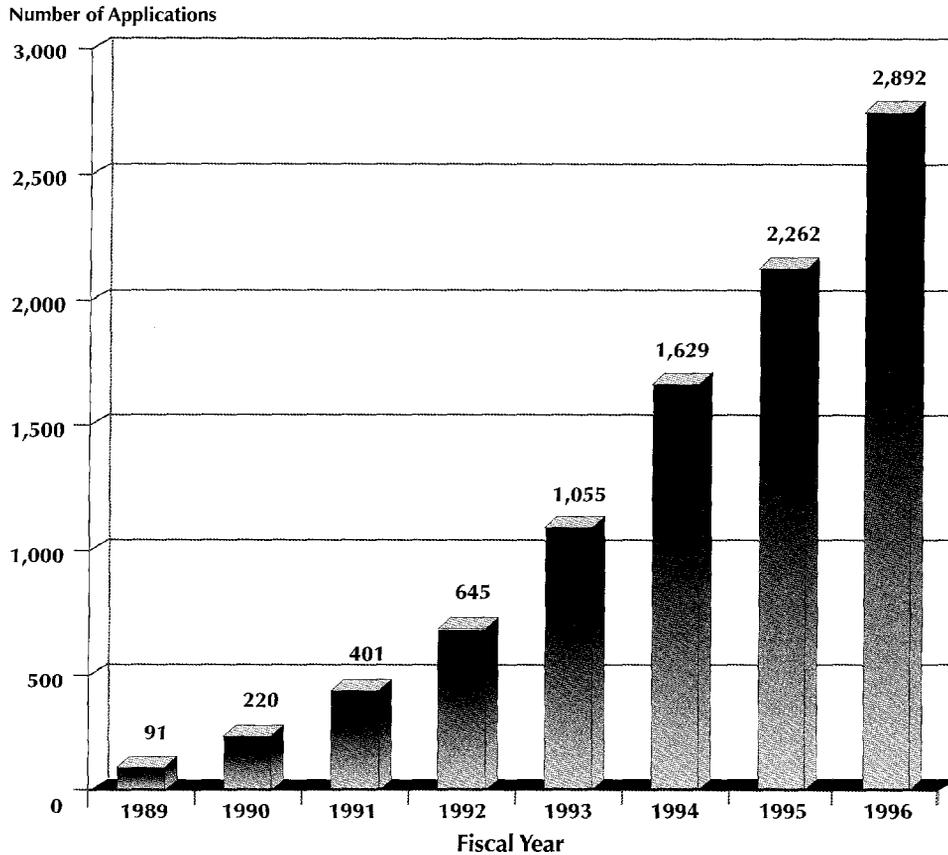
The proportion of MIGA contracts issued for investments in Latin America and the Caribbean partially reflects the more complex infrastructure power projects covered by the Agency involving multiple equity investors and commercial banks. In Africa and Asia, MIGA has tended to insure small and medium-size agribusiness, manufacturing, and mining investments.

VII OUTSTANDING PORTFOLIO BY INVESTOR COUNTRY (MAXIMUM CONTINGENT LIABILITY)



In addition to the broader distribution of its portfolio by host country, MIGA has benefited from a wider spread of investor countries as well. The majority share of U.S.-insured investments has decreased significantly as investors from countries such as the Netherlands and the United Kingdom increasingly utilized MIGA's services. In a special effort to promote investments between developing countries, in FY96 MIGA insured investors from Argentina, Brazil, South Africa, Turkey, and Uruguay for their investments in other developing countries.

VIII CUMULATIVE PRELIMINARY APPLICATIONS

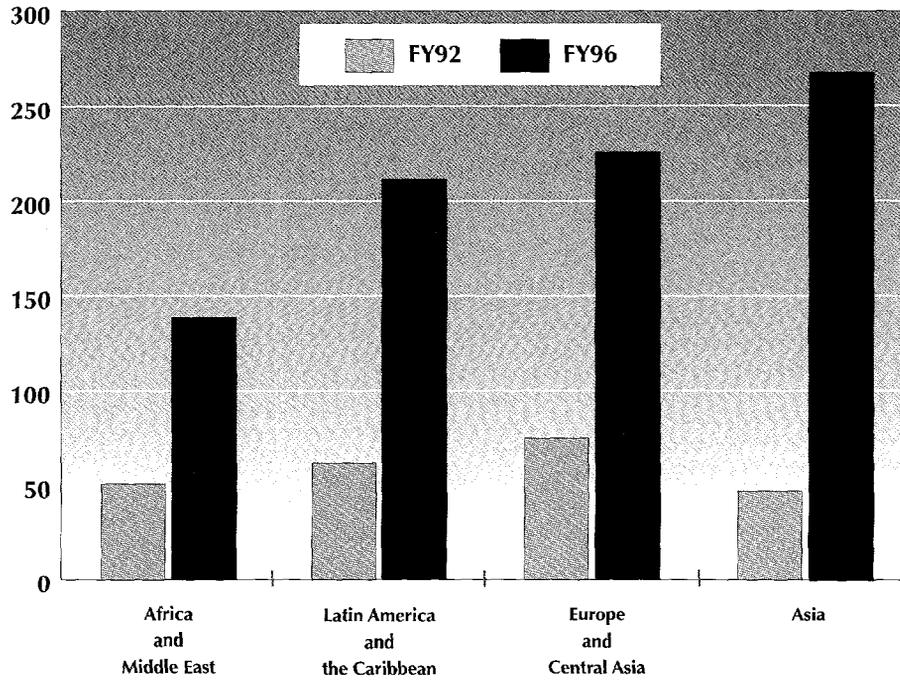


MIGA has received almost 2,900 Preliminary Applications for Guarantee, averaging approximately 50 per month in the past two years. This represents a dramatic increase from only 220 applications as of FY90. Demand for political risk insurance has been fueled by many favorable investment opportunities in developing and transitional economies. These opportunities, in turn, arise from recent economic reforms and increasing privatization of these economies.

This strong pipeline of applications bodes well for the Agency's future growth.

IX
ACTIVE PRELIMINARY APPLICATIONS
BY HOST REGION

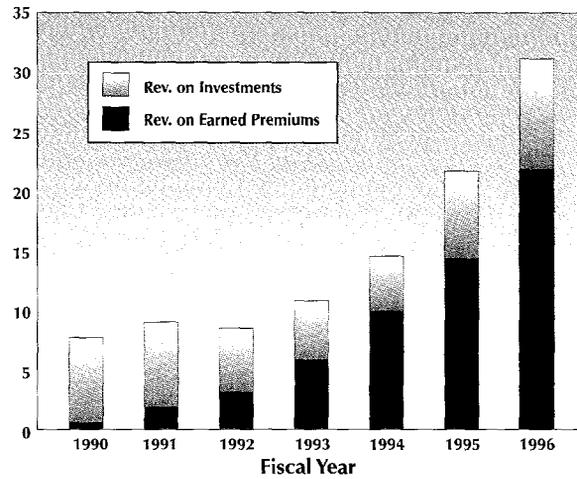
Number of Applications



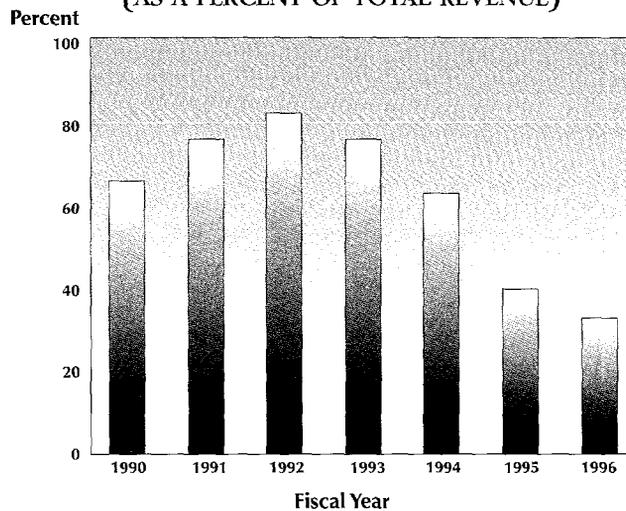
The regional distribution of Preliminary Applications for Guarantee received by MIGA is well-diversified as of FY96. Economic reforms and privatization movements in the transition economies of Europe and Central Asia and the increasing shift towards more liberal, open economies in Asia have attracted foreign investor interest in these regions. This is reflected in the significant increase of demand for MIGA guarantees for investments in these markets over the past five years.

X REVENUE AND ADMINISTRATIVE COSTS

In millions of US\$ **TOTAL REVENUE**



**TOTAL ADMINISTRATIVE COSTS
(AS A PERCENT OF TOTAL REVENUE)**



MIGA's revenues have steadily improved based largely on increases in earned premiums. However, due to tight management control of administrative costs, MIGA's costs as a percentage of total revenue have significantly declined. **In its seven years of operations, MIGA has not yet suffered a claims loss.**

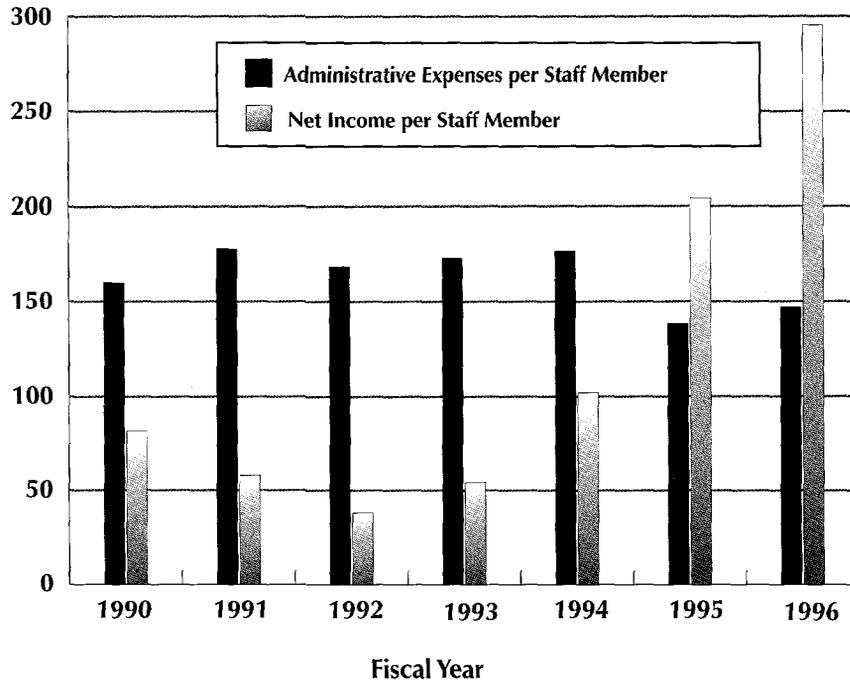
MIGA's total administrative expenses of \$10.3 million in FY96 constitute a small fraction of the budgets of multilateral development banks. Yet, with its small staff of 70 MIGA issued \$862 million in coverage in FY96 which facilitated \$6.6 billion of foreign direct investment, a ratio in excess of 7:1 (See page 4).

XI (A)

EFFICIENCY AND PROFITABILITY

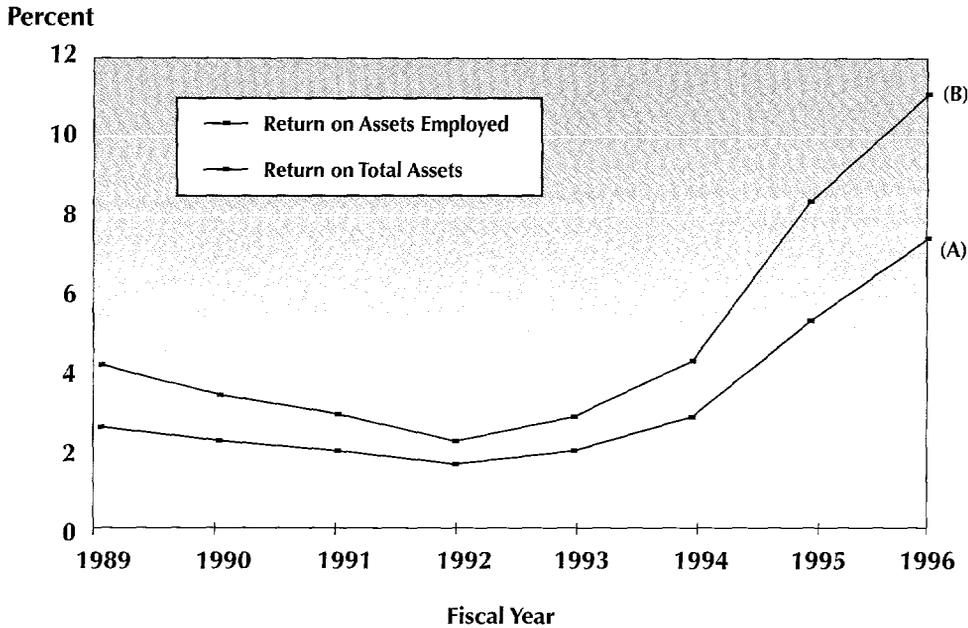
(ADMINISTRATIVE COSTS AND NET INCOME)

In thousands of US\$



Since FY92, MIGA's net income per staff member has steadily improved as Management carefully controlled its expenses through a period of rapid growth. MIGA's profitability, measured by net income before provisioning as a percentage of paid-in capital, has recorded similar improvement. Although direct performance comparisons with private and national insurers is not feasible (due to the absence of appropriate data), MIGA has clearly achieved a sharp improvement in performance.

XI (B) EFFICIENCY AND PROFITABILITY (RETURN ON ASSETS EMPLOYED)



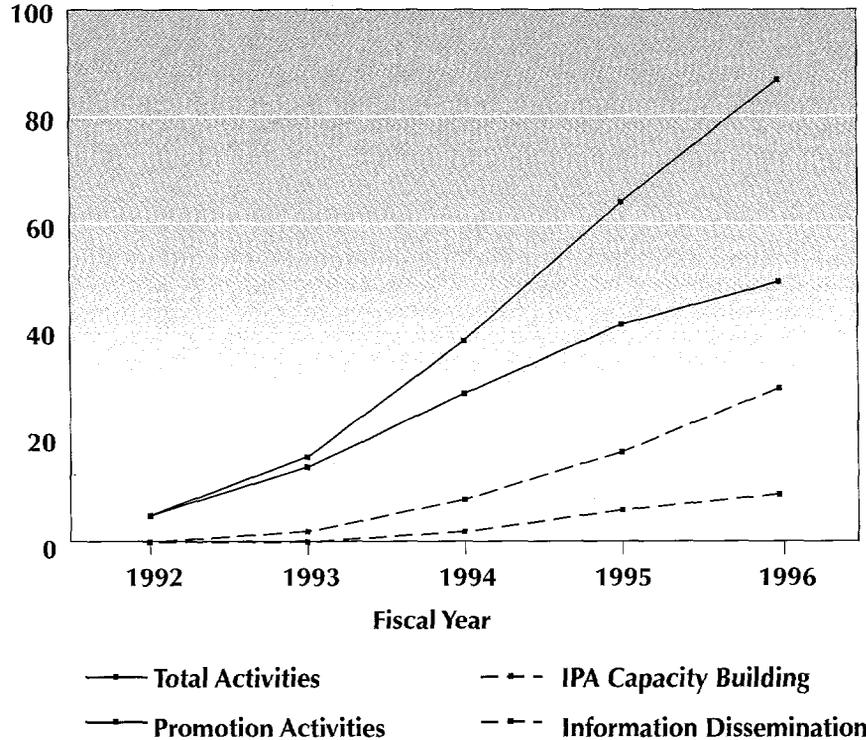
- A) Return on Total Assets is the ratio of net income before provisioning to total assets (net of callable capital—subscribed capital not actually paid in—which serves as a cushion for claims).
- B) Return on Assets Employed is the ratio of net income before provisioning to total assets minus promissory notes paid as a part of capital subscription (i.e., not encashed and non-interest bearing, which also serves as a cushion for claims).

Return on Assets (ROA) is commonly used as a measure of business performance. In MIGA's case, 80 percent of its initial assets were not paid in and 10 percent were in the form of promissory notes which do not accrue interest. Hence, it would be inappropriate to evaluate business performance on the basis of total assets as 90 percent of MIGA's initial capital is not currently employed. However, measured by the rate of return on the basis of total assets employed, MIGA's business performance has progressed sharply since FY92 as compared to ROA. (For further information, see Financial Statements in the Annual Report.)

XII

TECHNICAL ASSISTANCE ACTIVITIES: FY92-96 (CUMULATIVE NUMBER OF ACTIVITIES)

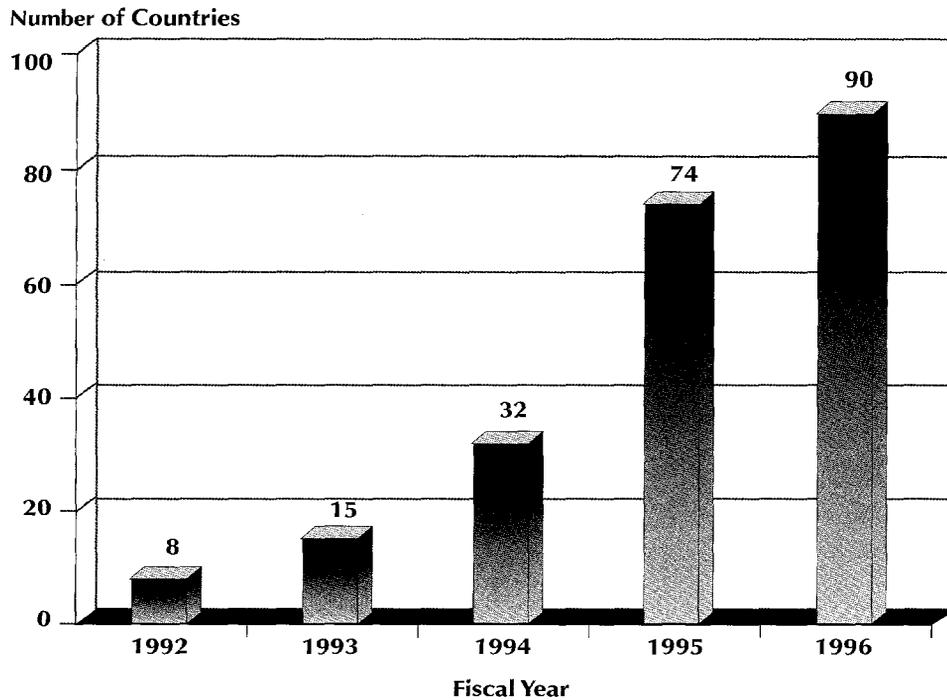
Number of Activities



MIGA's current program of technical assistance includes three major categories of investment promotion activities in member countries: (1) direct support of investment promotion activities; (2) dissemination of information on investment opportunities, business operating conditions, and business partners; and (3) strengthening of countries' institutional capacity to successfully plan, execute, and follow-up investment promotion programs and activities." More than half of the activities executed since FY92 have been in Africa. While MIGA continues to assist countries in executing traditional investment promotion activities such as conferences and missions, increasing emphasis is placed on information dissemination and IPA capacity-building activities. MIGA's technical assistance activities are undertaken on a cost-recovery basis.

** In FYs 92-93, MIGA also provided policy advisory services as part of its technical assistance program. However, in FY94, MIGA management decided to focus its technical assistance activities on investment promotion and to leave policy advisory activities to the World Bank, IFC, and FIAS.

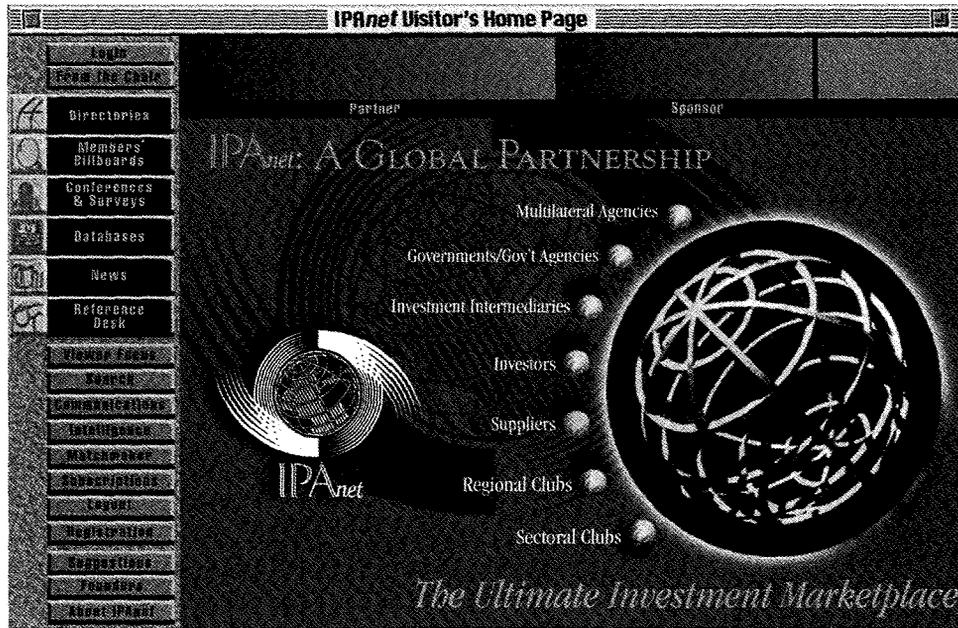
XIII
INCREASE IN TECHNICAL ASSISTANCE ACTIVITIES: FY92-96
(CUMULATIVE NUMBER OF DIRECT BENEFICIARY COUNTRIES)



Ninety developing countries have benefited directly from MIGA's technical assistance activities since the program was reoriented in FY94 to focus exclusively on investment promotion. Whenever feasible, MIGA now organizes its activities on a multi-country basis in order to maximize the number of beneficiary countries. MIGA's new electronic tools for dissemination of information on investment opportunities, business operating conditions, and business partners benefit virtually all developing countries simultaneously, but indirectly.

The figures in Chart XIII do not include those countries that have benefited indirectly from such information dissemination activities.

XIV IPAnet



IPAnet can be accessed at: <http://www.ipanet.net>
(Screen photo of IPAnet Visitor's Home Page Version I)

MIGA has launched a global, Internet-based investment marketplace, dubbed IPAnet, to promote investment into emerging markets. Employing the concept of a specialized electronic information shopping mall, IPAnet is a global "one-stop center" providing easy desktop access to investment opportunities, sources of finance, laws and regulations governing investments, and lists of important "who's who" in various countries. Along with electronic stores, IPAnet contains investment databases on over 100 countries, searchable directories of "key players" in international investment, listings of conferences and other events, matchmaker templates, targeted communications, e-mail filters, intelligence gathering, and business news. These and other unique features are all designed to link international investors and promoters of investment, world wide, to make global investment activity more efficient. As of August 1996, users in over 96 countries are accessing information through IPAnet.

APPENDIX

JUNE 5, 1997

141 MEMBER COUNTRIES

INDUSTRIALIZED—19

Belgium	Germany	Luxembourg	Sweden
Canada	Greece	Netherlands	Switzerland
Denmark	Ireland	Norway	United Kingdom
Finland	Italy	Portugal	United States
France	Japan	Spain	

DEVELOPING—122

AFRICA	Uganda	Morocco	Turkmenistan
Angola	Zambia	Oman	Ukraine
Benin	Zimbabwe	Qatar	Uzbekistan
Botswana		Saudi Arabia	
Burkina Faso	ASIA/PACIFIC	Tunisia	LATIN AMERICA/ CARIBBEAN
Cameroon	Bangladesh	United Arab Emirates	Argentina
Cape Verde	China	Yemen, Republic of	Bahamas, The
Congo, Democratic Republic of	Fiji		Barbados
Congo, Republic of	India	EUROPE/ CENTRAL ASIA	Belize
Côte d'Ivoire	Indonesia	Albania	Bolivia
Equatorial Guinea	Korea, Republic of	Armenia	Brazil
Eritrea	Malaysia	Azerbaijan	Chile
Ethiopia	Micronesia, Fed. States of	Belarus	Colombia
Gambia, The	Nepal	Bosnia-Herzegovina, Republic of	Costa Rica
Ghana	Pakistan	Bulgaria	Dominica
Guinea	Papua New Guinea	Croatia, Republic of	Dominican Republic
Kenya	Philippines	Cyprus	Ecuador
Lesotho	Sri Lanka	Czech Republic	El Salvador
Madagascar	Vanuatu	Estonia	Grenada
Malawi	Viet Nam	Georgia	Guatemala
Mali	Western Samoa	Hungary	Guyana
Mauritania		Kazakstan	Haiti
Mauritius	MIDDLE EAST/ NORTH AFRICA	Kyrgyz Republic	Honduras
Mozambique	Algeria	Lithuania	Jamaica
Namibia	Bahrain	Macedonia, FYR of	Nicaragua
Nigeria	Egypt,	Moldova	Panama
Senegal	Arab Republic of	Poland	Paraguay
Seychelles	Israel	Romania	Peru
Sierra Leone	Jordan	Russian Federation	St. Lucia
South Africa	Kuwait	Slovak Republic	St. Vincent and the Grenadines
Sudan	Lebanon	Slovenia,	Trinidad & Tobago
Swaziland	Libya	Republic of	Uruguay
Tanzania	Malta	Turkey	Venezuela
Togo			

18 COUNTRIES IN THE PROCESS OF FULFILLING MEMBERSHIP REQUIREMENTS

INDUSTRIALIZED—2

Australia	Austria
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DEVELOPING—17

AFRICA	ASIA/PACIFIC	EUROPE/ CENTRAL ASIA	LATIN AMERICA/ CARIBBEAN
Burundi	Cambodia	Latvia	St. Kitts & Nevis
Chad	Mongolia	Tajikistan	Suriname
Gabon	Singapore	Yugoslavia, Federal Republic of	
Guinea-Bissau	Solomon Islands		
Niger	Thailand		
Rwanda	MIDDLE EAST/ NORTH AFRICA		
	Syrian Arab Republic		

Contact MIGA for information
about countries not listed

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MULTILATERAL INVESTMENT
GUARANTEE AGENCY

